NICHOLAS FINANCIAL INC
Form 10-K
June 16, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934
For the fiscal year ended March 31, 2008

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______.

Commission file number: 0-26680

NICHOLAS FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

British Columbia, Canada	**8736-3354**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

2454 McMullen Booth Road, Building C

Clearwater, Florida

(Address of Principal Executive Offices)

(727) 726-0763

(Registrant s Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, no par value

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ¨

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The Registrant s revenues for its most recent fiscal year ended March 31, 2008 were $50,082,797. As of June 13, 2008, 10,293,081 shares of the Registrant s Common Stock, no par value, were outstanding. The aggregate market value of the shares held by non-affiliates was approximately $73,875,000 as of September 30, 2007.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant s definitive Proxy Statement and Information Circular for the 2008 Annual General Meeting of Shareholders currently scheduled to be held on August 6, 2008, expected to be filed with the Commission pursuant to Regulation 14A on or about July 3, 2008, are incorporated by reference in Part III, Items 10 through 14, of this Annual Report on Form 10-K.

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NICHOLAS FINANCIAL, INC.

FORM 10-K ANNUAL REPORT

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Forward-Looking Information

This Annual Report on Form 10-K contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on management s beliefs and assumptions, as well as information currently available to management. When used in this document, the words anticipate, estimate, expect, and similar expressions are intended to identify forward-looking statements. Although Nicholas Financial, Inc., including its subsidiaries (collectively the Company), believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Such statements are subject to certain risks, uncertainties and assumptions, including but not limited to the risk factors discussed under the caption Risk Factors set forth in Item 1A Risk Factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or expected. Among the key factors that may cause actual results to differ materially from those projected in forward-looking statements include fluctuations in the economy, the degree and nature of competition, fluctuations in interest rates, the availability of capital at acceptable rates and terms, demand for consumer financing in the markets served by the Company, the Company s products and services, increases in the default rates experienced on retail installment sales contracts (Contracts), regulatory changes in the Company s existing and future markets, and the Company s ability to expand its business, including its ability to identify and complete acquisitions and integrate the operations of acquired businesses, to recruit and retain qualified employees, to expand into new markets and to maintain profit margins in the face of increased pricing competition. All forward-looking statements included in this Report are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statement. Prospective investors should also consult the risk factors described from time to time in the Company s filings made with the Securities and Exchange Commission, including its reports on Forms 10-Q, 8-K and 10-K, and annual reports to shareholders.

PART I

Item 1. Business

General

Nicholas Financial, Inc. (Nicholas Financial-Canada) is a Canadian holding company incorporated under the laws of British Columbia in 1986. The business activities of Nicholas Financial-Canada are conducted through its two wholly-owned subsidiaries formed pursuant to the laws of the State of Florida, Nicholas Financial, Inc. (Nicholas Financial) and Nicholas Data Services, Inc., (NDS). Nicholas Financial is a specialized consumer finance company engaged primarily in acquiring and servicing Contracts for purchases of new and used automobiles and light trucks. To a lesser extent, Nicholas Financial also makes direct loans and sells consumer-finance related products. NDS is engaged in supporting and updating industry-specific computer application software for small businesses located primarily in the Southeastern United States. Nicholas Financial s financing activities accounted for more than 99% of the Company s consolidated revenues for each of the fiscal years ended March 31, 2008, 2007 and 2006. NDS s activities accounted for less than 1% of consolidated revenues during the same periods.

Nicholas Financial-Canada, Nicholas Financial and NDS are hereafter collectively referred to as the Company . All financial information herein is designated in United States currency.

The Company s principal executive offices are located at 2454 McMullen Booth Road, Building C, Clearwater, Florida 33759, and its telephone number is (727) 726-0763.

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Available Information

The Company s filings with the U.S. Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, definitive proxy statements on Schedule 14A, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, are made available free of charge through the Investor Relations section of the Company s Internet website at http://nicholasfinancial.com as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. Copies of any materials the Company files with the SEC can also be obtained free of charge through the SEC s website at http://www.sec.gov, at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, or by calling the SEC s Office of Investor Education and Assistance at 1-800-732-0330.

Growth Strategy

The Company s principal goals are to increase its profitability and its long-term shareholder value through greater penetration of its automobile financing program in its current markets and controlled geographic expansion into new markets. The Company also intends to continue its expansion through a proportionate increase in its origination of direct consumer loans. The Company is currently expanding its automobile financing program in the States of Georgia, Florida, North Carolina, South Carolina, Virginia, Michigan, Ohio, Kentucky, Indiana, Maryland, Alabama, and Tennessee. The Company has targeted certain geographic locations within these states where it believes there is a sufficient market for its automobile financing program. The Company s strategy is to monitor these markets and ultimately decide where and if it will open additional branch locations. The Company also continues to analyze other markets in states in which it does not currently operate. Although the Company has not made any material bulk purchases of Contracts in the last ten years, if the opportunity arises, the Company may consider possible acquisitions of portfolios of seasoned Contracts from dealers in bulk transactions as a means of further penetrating its existing markets or expanding its presence in targeted geographic locations. The Company cannot provide any assurances, however, that it will be able to further expand in either its current markets or any targeted new markets.

Automobile Finance Business Contracts

The Company is engaged in the business of providing financing programs, primarily on behalf of purchasers of new and used cars and light trucks who meet the Company s credit standards, but who do not meet the credit standards of traditional lenders, such as banks and credit unions, because of the age of the vehicle being financed or the customer s job instability or credit history. Unlike traditional lenders, which look primarily to the credit history of the borrower in making lending decisions and typically finance new automobiles, the Company is willing to purchase Contracts for purchases made by borrowers who do not have a good credit history and for older model and high mileage automobiles. In making decisions regarding the purchase of a particular Contract the Company considers the following factors related to the borrower: place and length of residence; current and prior job status; history in making installment payments for automobiles; current income; and credit history. In addition, the Company examines its prior experience with Contracts purchased from the dealer from which the Company is purchasing the Contract, and the value of the automobile in relation to the purchase price and the term of the Contract.

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The Company s automobile finance programs are currently conducted in twelve states through a total of 47 branch offices, consisting of nineteen in Florida, five in each of Ohio, Georgia and North Carolina, three in each of Kentucky and Virginia, two in each of Maryland and Indiana, and one in each of Michigan, Alabama, and South Carolina. The Company has been developing the Nashville, TN market and anticipates opening a branch office in Nashville during the first quarter of fiscal year 2009. As of March 31, 2008 the Company had non-exclusive agreements with approximately 3,000 dealers, of which approximately 1,500 are active, for the purchase of individual Contracts that meet the Company s financing criteria. The Company considers a dealer agreement to be active if the Company has purchased a Contract thereunder in the last six months. The dealer agreements require the dealer to originate Contracts in accordance with the Company s guidelines. Once a Contract is purchased by the Company the dealer is no longer involved in the relationship between the Company and the borrower, other than through the existence of limited representation and warranties of the dealer.

Customers under the Contracts typically make down payments, in the form of cash or trade-in, ranging from 5% to 20% of the sale price of the vehicle financed. The balance of the purchase price of the vehicle plus taxes, title fees and, if applicable, premiums for extended service Contracts, accident and health insurance and/or credit life insurance, are generally financed over a period of 12 to 72 months. Accident and health insurance coverage enables the customer to make required payments under the Contract in the event the borrower becomes unable to work because of illness or accident and credit life insurance pays the borrower s obligations under the Contract upon his or her death.

The Company purchases Contracts from automobile dealers at a negotiated price that is less than the original principal amount being financed (the discount) by the purchaser of the automobile. The amount of the discount depends upon factors such as the age and value of the automobile and the creditworthiness of the customer. The Company will pay more (i.e., purchase the Contract at a smaller discount from the original principal amount) for Contracts as the credit risk of the customer improves. In certain markets, competition determines the discount that the Company can charge. Historically, the Contracts purchased by the Company have been purchased at discounts that range from 1% to 15% of the original principal amount of the Contract. In addition to the discount, the Company charges the dealer a processing fee of $75 per Contract purchased. As of March 31, 2008, the Company s loan portfolio consisted exclusively of Contracts purchased without recourse to the dealer. Although all the Contracts in the Company s loan portfolio were acquired without recourse, each dealer remains liable to the Company for liabilities arising from certain representations and warranties made by the dealer with respect to compliance with applicable federal and state laws and valid title to the vehicle.

The Company s policy is to only purchase a Contract after the dealer has provided the Company with the requisite proof that the Company has a first priority lien on the financed vehicle (or the Company has, in fact, perfected such first priority lien), that the customer has obtained the required collision insurance naming the Company as loss payee and that the Contract has been fully and accurately completed and validly executed. Once the Company has received and approved all required documents, it pays the dealer for the Contract and commences servicing the Contract.

The Company requires the owner of the vehicle to obtain and maintain collision insurance, naming the Company as the loss payee, with a deductible of not more than $500. Both the Company and the dealers offer purchasers of vehicles certain other add-on products. These products are offered by the dealer on behalf of the Company or on behalf of the dealership at the time of sale. They consist of a roadside assistance plan, extended warranty protection, gap insurance, credit life insurance, credit accident and health insurance, and credit property insurance. If the purchaser so desires, the cost of these products may be included in the amount financed under the Contract.

Contract Procurement

The Company purchases Contracts in the states listed in the table below. The Contracts purchased by the Company are predominately for used vehicles; for the periods shown below, less than 3% were for new vehicles. The average model year collateralizing the portfolio as of March 31, 2008 was a 2002 vehicle. The dollar amounts shown in the table below represent the Company s finance receivables, net of unearned interest on Contracts purchased:

State	Maximum allowable interest rate (1)	Fiscal year ended March 31, 2008	2007	2006
Florida	18-30% (2)	**$ 50,447,849**	$ 54,398,960	$ 50,382,674
Georgia	18-30% (2)	**12,311,278**	11,586,876	10,180,952
North Carolina	18-29% (2)	**12,602,042**	13,158,260	12,123,479
South Carolina	(3)	**3,978,758**	4,276,742	3,762,664
Ohio	25%	**14,746,718**	13,306,050	13,256,580
Virginia	(3)	**4,880,380**	7,027,766	7,689,661
Maryland	24%	**4,556,303**	3,697,468	2,660,706
Kentucky	18-25% (2)	**5,409,996**	6,452,075	4,089,311
Michigan	25%	**1,983,858**	2,000,130	2,363,510
Indiana	21%	**4,990,032**	2,874,907	2,847,976
Alabama	(3)	**2,570,603**	1,413,763	
Tennessee	(3)	**51,613**		
Total		**$ 118,529,430**	$ 120,192,997	$ 109,357,513

(1) The allowable maximum interest rates by state are subject to change and are governed by the individual states the Company conducts business in.

(2) The maximum allowable interest rate in each of these states varies depending upon the model year of the vehicle being financed. In addition, Georgia does not currently impose a maximum allowable interest rate with respect to Contracts over $5,000.

(3) None of these states currently imposes a maximum allowable interest rate with respect to the types and sizes of Contracts the Company purchases. The maximum rate which the Company will typically charge any customer in each of these states is 29% per annum.

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The following table presents selected information on Contracts purchased by the Company, net of unearned interest:

	Fiscal year ended March 31,		
Contracts	**2008**	**2007**	**2006**
Purchases	**$ 118,529,430**	$ 120,192,997	$ 109,357,513
Weighted APR	**24.23%**	23.90%	24.03%
Average discount	**8.32%**	8.45%	8.78%
Weighted average term (months)	**48**	46	45
Average loan	**$ 9,315**	$ 9,063	$ 8,795
Number of contracts	**12,725**	13,262	12,434

Direct Loans

The Company currently originates direct loans in Florida, Georgia and North Carolina. Direct loans are loans originated directly between the Company and the consumer. These loans are typically for amounts ranging from $1,000 to $8,000 and are generally secured by a lien on an automobile, watercraft or other permissible tangible personal property. During fiscal year 2008, the average loan made by the Company had an initial principal balance of approximately $3,300. The Company does not expect the average loan size to increase significantly within the foreseeable future. The majority of direct loans are originated with current or former customers under the Company s automobile financing program. The typical direct loan represents a significantly better credit risk than our typical Contract due to the customer s historical payment history with the Company. The Company does not have a direct loan license in Ohio, South Carolina, Michigan, Kentucky, Maryland, Indiana, Alabama, Tennessee, or Virginia, and none is presently required in Georgia (as the Company currently does not make direct loans under $3,000 in that state). Typically, the Company allows for a seasoning process to occur in a new market prior to determining whether to pursue a direct loan license there. The Company anticipates receiving licensing approval in Ohio during the second quarter of fiscal year 2009 and should commence direct loan originations at that time. The Company does not expect to pursue a direct loan license in any other state during the current fiscal year. The size of the loan and maximum interest rate that can be charged vary from state to state. In deciding whether or not to make a loan, the Company considers the individual s credit history, job stability, income and impressions created during a personal interview with a Company loan officer. Additionally, because most of the direct consumer loans made by the Company to date have been made to borrowers under Contracts previously purchased by the Company, the payment history of the borrower under the Contract is a significant factor in making the loan decision. The Company s direct loan program was implemented in April 1995 and currently accounts for approximately 4% of annual consolidated revenues for the Company. As of March 31, 2008, loans made by the Company pursuant to its direct loan program constituted approximately 4% of the aggregate principal amount of the Company s loan portfolio.

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In connection with its direct loan program, the Company also offers health and accident insurance coverage and credit life insurance to customers. Customers in approximately 79% of the 2,882 direct loan transactions outstanding as of March 31, 2008 had elected to purchase insurance coverage offered by the Company. The cost of this insurance is included in the amount financed by the customer.

The following table presents selected information on direct loans originated by the Company, net of unearned interest:

	Fiscal year ended March 31,		
Direct loan originations	**2008**	**2007**	**2006**
Originations	**$ 8,132,273**	$ 8,672,700	$ 7,936,013
Weighted APR	**25.57%**	25.30%	25.65%
Weighted average term (months)	**29**	31	28
Average loan	**$ 3,332**	$ 3,459	$ 3,399
Number of contracts	**2,441**	2,507	2,335

Underwriting Guidelines

The Company s typical customer has a credit history that fails to meet the lending standards of most banks and credit unions. Among the credit problems experienced by the Company s customers that resulted in a poor credit history are: unpaid revolving credit card obligations; unpaid medical bills; unpaid student loans; prior bankruptcy; and evictions for nonpayment of rent. The Company believes that its customer profile is similar to that of its direct competitors.

Prior to its approval of the purchase of a Contract, the Company is provided with a standardized credit application completed by the consumer which contains information relating to the consumer s background, employment, and credit history. The Company also obtains credit reports from Equifax, TRW or TransUnion, which are independent credit reporting services. The Company verifies the consumer s employment history, income and residence. In most cases, consumers are interviewed by telephone by a Company application processor.

The Company has established internal buying guidelines to be used by its Branch Managers and internal underwriters when purchasing Contracts. Any Contract that does not meet these guidelines must be approved by the senior management of the Company. The Company currently has District Managers charged with managing the specific branches in a defined geographic area. In addition to a variety of administrative duties, the District Managers are responsible for monitoring their assigned branches compliance with the Company s underwriting standards.

The Company uses essentially the same criteria in analyzing a direct loan as it does in analyzing the purchase of a Contract. Lending decisions regarding direct loans are made based upon a review of the customer s loan application, credit history, job stability, income, in-person interviews with a Company loan officer and the value of the collateral offered by the borrower to secure the loan. To date, since approximately 90% of the Company s direct loans have been made to individuals whose automobiles have been financed by the Company, the customer s payment history under his or her existing or past Contract is a significant factor in the lending decision. The decision process with respect to the purchase of Contracts is similar, although the customer s prior payment history with automobile loans is weighted more heavily in the decision-making process and the collateral value of the automobile being financed is also considered.

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After reviewing the information included in the Contract or direct loan application and taking the other factors into account, a Company employee categorizes the customer using internally developed credit classifications of 1, indicating higher creditworthiness, through 5, indicating lower creditworthiness. In the absence of other factors, such as a favorable payment history on a Contract held by the Company, the Company generally makes direct loans only to individuals rated in categories 3 or higher. Contracts are financed for individuals who fall within all five acceptable rating categories utilized, 1 through 5 .

Usually a customer who falls within the two highest categories is purchasing a two to four-year old, low mileage used automobile from the inventory of a new car or franchise dealer, while a customer in either of the two lowest categories is purchasing an older, high mileage automobile from an independent used automobile dealer.

The Company utilizes its Loss Recovery Department (LRD) to perform on-site audits of branch compliance with Company underwriting guidelines. LRD audits Company branches on a schedule that is variable depending on the size of the branch, length of time a branch has been open, current tenure of the Branch Manager, previous branch audit score and current and historical branch profitability. LRD reports directly to the Accounting and Administrative Management of the Company. The Company believes that an independent review and audit of its branches that is not tied to the sales function of the Company is imperative in order to assure the information obtained is impartial.

Monitoring and Enforcement of Contracts

The Company requires all customers to obtain and maintain collision insurance covering damage to the vehicle. Failure to maintain such insurance constitutes a default under the Contract, and the Company may, at its discretion, repossess the vehicle. To reduce potential loss due to insurance lapse, the Company has the contractual right to force place its own collateral protection insurance policy, which covers loss due to physical damage to vehicles not covered by collision insurance.

The Company s Management Information Services personnel maintain a number of reports to monitor compliance by customers with their obligations under Contracts and direct loans made by the Company. These reports may be accessed on a real-time basis throughout the Company by management personnel, including Branch Managers and staff, at computer terminals located in the main office and each branch office. These reports include delinquency aging reports, customer promises reports, vehicle information reports, purchase reports, dealer analysis reports, static pool reports, and repossession reports.

A delinquency report is an aging report that provides basic information regarding each account and indicates accounts that are past due. The report includes information such as the account number, address of the customer, home and work phone numbers of the customer, original term of the Contract, number of remaining payments, outstanding balance, due dates, date of last payment, number of days past due, scheduled payment amount, amount of last payment, total past due, and special payment arrangements or agreements.

Any account that is less than 120 days old is included on the delinquency report on the first day that the Contract is contractually past due. After an account has matured more than 120 days, it is not included on the delinquency report until it is 11 days past due. Once an account becomes 30 days past due, repossession proceedings are implemented unless the customer provides the Company with an acceptable explanation for the delinquency and displays a willingness and the ability to make the payment, and commits to a plan to return the account to current status. When an account is 60 days past due, the Company ceases recognition of income on the Contract and repossession proceedings are initiated. At 120 days delinquent, if the vehicle has not yet been repossessed, the account is written off. Once a vehicle has been repossessed, the related loan balance no longer appears on the delinquency report. Instead, the vehicle appears on the Company s repossession report and is sold, either at auction or to an automobile dealer.

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When an account becomes delinquent, the Company promptly contacts the customer in an attempt to determine the reason for the delinquency and to determine if appropriate arrangements for payment can be made. If payment arrangements acceptable to the Company can be made, the information is entered in its database and is used to generate a Promises Report, which is utilized by the Company s collection staff for account follow up.

The Company prepares a repossession report that provides information regarding repossessed vehicles and aids the Company in disposing of repossessed vehicles. In addition to information regarding the customer, this report provides information regarding the date of repossession, date the vehicle was sold, number of days it was held in inventory prior to sale, year and make and model of the vehicle, mileage, payoff amount on the Contract, NADA book value, Black Book value, suggested sale price, location of the vehicle, original dealer and condition of the vehicle, and notes other information that may be helpful to the Company.

The Company also prepares a dealer analysis report that provides information regarding each dealer from which it purchases Contracts. This report allows the Company to analyze the volume of business done with each dealer and the terms on which it has purchased Contracts from the dealer.

The Company s policy is to aggressively pursue legal remedies to collect deficiencies from customers. Delinquency notices are sent to customers and verbal requests for payment are made beginning when an account becomes 11 days delinquent. When an account becomes 30 days delinquent and the customer has not made payment arrangements acceptable to the Company or has failed to respond to the requests for payment, a repossession request form is prepared by the responsible branch office employee for approval by the Branch Manager for the vicinity in which the borrower lives. Once the repossession request has been approved, first by the Branch Manager and secondly by the applicable District Manager, it must then be approved by the Director of Loss Recovery. The repossessor delivers the vehicle to a secure location specified by the Company. The Company maintains relationships with several licensed repossession firms that repossess vehicles for fees that range from $200 to $400 for each vehicle repossessed. As required by Florida, Georgia, North Carolina, South Carolina, Ohio, Michigan, Indiana, Maryland, Kentucky, Alabama and Virginia law, the customer is notified by certified letter that the vehicle has been repossessed and that to regain the vehicle, he or she must make arrangements satisfactory to the Company and pay the amount owed under the Contract within ten days after delivery of the letter.

The minimum requirement for return of the vehicle is payment of all past due amounts under the Contract and all expenses associated with the repossession incurred by the Company. If satisfactory arrangements for return of the vehicle are not made within the statutory period, the Company then sends title to the vehicle to the applicable state title transfer department, which then registers the vehicle in the name of the Company. The Company then either sells the vehicle to a dealer or has it transported to an automobile auction for sale. On average, approximately 30 days lapse between the time the Company takes possession of a vehicle and the time it is sold to a dealer or at auction. When the Company determines that there is a reasonable likelihood of recovering part or all of any deficiency against the customer under the Contract, it pursues legal remedies available to it, including lawsuits, judgement liens and wage garnishments. Historically, the Company has recovered approximately 10-15% of deficiencies from such customers. Proceeds from the disposition of the vehicles are not included in calculating the foregoing percentage range.

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Marketing and Advertising

The Company s Contract marketing efforts currently are directed exclusively toward automobile dealers. The Company attempts to meet dealers needs by offering highly-responsive, cost-competitive and service-oriented financing programs. The Company relies on its District and Branch Managers to solicit agreements for the purchase of Contracts with automobile dealers located within a 25-mile radius of each branch office. The Branch Manager provides dealers with information regarding the Company and the general terms upon which the Company is willing to purchase Contracts. The Company presently has no plans to implement any other forms of advertising, such as radio or newspaper advertisements, for the purchase of Contracts

The Company solicits customers under its direct loan program primarily through direct mailings, followed by telephone calls, to individuals who have a good credit history with the Company in connection with Contracts purchased by the Company.

Computerized Information System

The Company utilizes integrated computer software systems developed by NDS to assist in responding to customer inquiries and to monitor the performance of its Contract and direct loan portfolio and the performance of individual customers under Contracts. All Company personnel are provided with instant, simultaneous access to information from a single shared database. The Company has created specialized programs to automate the tracking of Contracts and direct loans from inception. The Company s computer network encompasses both its corporate headquarters and its branch office locations. See Monitoring and Enforcement of Contracts above for a summary of the different reports prepared by the Company.

Competition

The consumer finance industry is highly fragmented and highly competitive. There are numerous financial service companies that provide consumer credit in the markets served by the Company, including banks, other consumer finance companies, and captive finance companies owned by automobile manufacturers and retailers. Many of these companies have significantly greater resources than the Company. The Company does not believe that increased competition for the purchase of Contracts will cause a material reduction in the interest rate payable by an individual purchaser of an automobile for the foreseeable future. However, increased competition for the purchase of Contracts will enable automobile dealers to shop for the best price, thereby giving rise to an erosion in the discount from the initial principal amounts at which the Company would be willing to purchase Contracts.

The Company s target market consists of persons who are generally unable to obtain traditional used car financing because of their credit history or the vehicle s mileage or age. The Company has been able to expand its automobile finance business in the non-prime credit market by offering to purchase Contracts on terms that are competitive with those of other companies which purchase automobile receivables in that market segment. Because of the daily contact that many of its employees have with automobile dealers located throughout the market areas served by it, the Company is generally aware of the terms upon which its competitors are offering to purchase Contracts. The Company s policy is to modify its terms, if necessary, to remain competitive. However, the Company will not sacrifice credit quality, its purchasing criteria or prudent business practices in order to meet the competition.

The Company s ability to compete effectively with other companies offering similar financing arrangements depends upon maintaining close business relationships with dealers of new and used vehicles. No single dealer out of the approximately 1,500 dealers that the Company currently has active Contractual relationships with accounted for over 1% of its business volume for any of the fiscal years ended March 31, 2008, 2007 or 2006.

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Regulation

The Company s financing operations are subject to regulation, supervision and licensing under various federal, state and local statutes and ordinances. Additionally, the procedures that the Company must follow in connection with the repossession of vehicles securing Contracts are regulated by each of the states in which the Company does business. To date, the Company s operations have been conducted exclusively in the states of Florida, Georgia, Michigan, North Carolina, Ohio, South Carolina, Kentucky, Maryland, Indiana, Alabama, Tennessee and Virginia. Accordingly, the laws of such states, as well as applicable federal law, govern the Company s operations. Compliance with existing laws and regulations has not had a material adverse effect on the Company s operations to date. The Company s management believes that the Company maintains all requisite licenses and permits and is in material compliance with all applicable local, state and federal laws and regulations. The Company periodically reviews its branch office practices in an effort to ensure such compliance. The following constitute certain of the federal, state and local statutes and ordinances with which the Company must comply:

State consumer regulatory agency requirements. Pursuant to regulations of the state of Florida governing the Company s financing business activities, the Florida Department of Banking and Finance periodically conducts an on-site audit of each of the Company s Florida branches to monitor compliance with applicable regulations. These regulations govern, among other matters, licensure requirements, requirements for maintenance of proper records, payment of required fees, maximum interest rates that may be charged on loans to finance used vehicles and proper disclosure to customers regarding financing terms. Pursuant to North Carolina law, the Company s direct loan activities in that state are subject to similar periodic on-site audits by the North Carolina Office of the Commissioner of Banks.

State licensing requirements. The Company maintains a Sales Finance Company License with the Florida Department of Banking and Finance, as well as consumer loan licenses in Florida and North Carolina. In addition, each of the dealers that the Company does business with is required to maintain a Retail Installment Seller s License with each state in which it operates.

Fair Debt Collection Act. The Fair Debt Collection Act and applicable state law counterparts prohibit the Company from contacting customers during certain times and at certain places, from using certain threatening practices and from making false implications when attempting to collect a debt.

Truth in Lending Act. The Truth in Lending Act requires the Company and the dealers it does business with to make certain disclosures to customers, including the terms of repayment, the total finance charge and the annual percentage rate charged on each Contract or direct loan.

Equal Credit Opportunity Act. The Equal Credit Opportunity Act prohibits creditors from discriminating against loan applicants on the basis of race, color, sex, age or marital status. Pursuant to Regulation B promulgated under the Equal Credit Opportunity Act, creditors are required to make certain disclosures regarding consumer rights and advise consumers whose credit applications are not approved of the reasons for the rejection.

Fair Credit Reporting Act. The Fair Credit Reporting Act requires the Company to provide certain information to consumers whose credit applications are not approved on the basis of a report obtained from a consumer-reporting agency.

Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act requires the Company to maintain privacy with respect to certain consumer data in its possession and to periodically communicate with consumers on privacy matters.

Soldiers and Sailors Civil Relief Act. The Soldiers and Sailors Civil Relief Act requires the Company to reduce the interest rate charged on each loan to customers who have subsequently joined, enlisted, been inducted or called to active military duty.

Electronic Funds Transfer Act. The Electronic Funds Transfer Act prohibits the Company from requiring its customers to repay a loan or other credit by electronic funds transfer (EFT), except in limited situations which do not apply to the Company. The Company is also required to provide certain documentation to its customers when an EFT is initiated and to provide certain notifications to its customers with regard to preauthorized payments.

Telephone Consumer Protection Act. The Telephone Consumer Protection Act prohibits telephone solicitation calls to a customer s home before 8 a.m. or after 9 p.m. In addition, if the Company makes a telephone solicitation call to a customer s home, the representative making the call must provide his or her name, the Company s name, and a telephone number or address at which the Company s representative may be contacted. The Telephone Consumer Protection Act also requires that the Company maintain a record of any requests by customers not to receive future telephone solicitations, which must be maintained for five years.

Bankruptcy. Federal bankruptcy and related state laws may interfere with or affect the Company s ability to recover collateral or enforce a deficiency judgment.

Employees

The Company s management and various support functions are centralized at the Company s Corporate Headquarters in Clearwater, Florida. As of March 31, 2008 the Company employed a total of 235 persons, three of whom work for NDS and 232 of whom work for Nicholas Financial. None of the Company s employees is subject to a collective bargaining agreement, and the Company considers its relations with its employees generally to be good.

Item 1A. Risk Factors

The following factors, as well as other factors not set forth below, may adversely effect the business, operations, financial condition or results of operations of the Company (sometimes referred to in this section as we us or our).

Our profitability and future growth depend on our continued access to bank financing.

The profitability and growth of our business currently depend on our ability to access bank debt at competitive rates. We currently depend on a $115.0 million line of credit facility (Line) with a financial institution to finance our purchases of Contracts and fund our direct loans. This line of credit currently has a maturity date of November 30, 2010 and is secured by substantially all our assets. At March 31, 2008, we had approximately $99.9 million outstanding under the line of credit and approximately $15.1 million available for additional borrowing.

The availability of our credit facility depends, in part, on factors outside of our control, including regulatory capital treatment for unfunded bank lines of credit and the availability of bank loans in general. Therefore, we cannot guarantee that this credit facility will continue to be available beyond the current maturity date on reasonable terms or at all. If we are unable to renew or replace our credit facility or find alternative financing at reasonable rates, we may be forced to liquidate. We will continue to depend on the availability of our line of credit, together with cash from operations, to finance our future operations.

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The terms of our indebtedness impose significant restrictions on us.

Our existing outstanding indebtedness restricts our ability to, among other things:

- sell or transfer assets;
- incur additional debt;
- repay other debt;
- pay dividends;
- make certain investments or acquisitions;
- repurchase or redeem capital stock;
- engage in mergers or consolidations; and
- engage in certain transactions with subsidiaries and affiliates.

In addition, our line of credit facility requires us to comply with certain financial ratios and covenants and to satisfy specified financial tests, including maintenance of asset quality and portfolio performance tests. Our ability to continue to meet those financial ratios and tests could be affected by events beyond our control. Failure to meet any of these covenants, financial ratios or financial tests could result in an event of default under our line of credit facility. If an event of default occurs under this credit facility, the lender may take one or more of the following actions:

- increase our borrowing costs;
- restrict our ability to obtain additional borrowings under the facility;
- accelerate all amounts outstanding under the facility; or
- enforce its interests against collateral pledged under the facility.

If our lender accelerates our debt payments, our assets may not be sufficient to fully repay the debt.

We will require a significant amount of cash to service our indebtedness and meet our other liquidity needs.

Our ability to make payments on or to refinance our indebtedness and to fund our operations and planned capital expenditures depends on our future operating performance. Our primary cash requirements include the funding of:

Contract purchases and direct loans;

interest payments under our line of credit facility and other indebtedness;

capital expenditures for technology and facilities;

ongoing operating expenses;

planned expansions by opening additional branch offices; and

any required income tax payments.

In addition, because we expect to continue to require substantial amounts of cash for the foreseeable future, we may seek additional debt or equity financing. The type, timing and terms of the financing we select will be dependent upon our cash needs, the availability of other financing sources and the prevailing conditions in the financial markets. There is no assurance that any of these sources will be available to us at any given time or that on reasonable terms on which these sources may be available will be favorable. Our inability to obtain such additional financing on reasonable terms could adversely impact our ability to grow.

Our substantial indebtedness could adversely affect our financial condition.

We currently have a substantial amount of outstanding indebtedness. Our ability to make payments on, or to refinance, our indebtedness will depend on our future operating performance, including our ability to access additional debt and equity financing, which, to a certain extent, is subject to economic, financial, competitive and other factors beyond our control.

Our high level of indebtedness could have important consequences for our business. For example,

- we may be unable to satisfy our obligations under our outstanding indebtedness;
- we may find it more difficult to fund future working capital, capital expenditures, acquisitions, and general corporate needs;
- we may have to dedicate a substantial portion of our cash resources to the payments on our outstanding indebtedness, thereby reducing the funds available for operations and future business opportunities; and
- we may be more vulnerable to adverse general economic and industry conditions.

We may incur substantial additional debt in the future. If new debt is added to our current levels, the risks described above could intensify.

We may experience high delinquency rates in our loan portfolios, which could reduce our profitability.

Our profitability depends, to a material extent, on the performance of Contracts that we purchase. Historically, we have experienced higher delinquency rates than traditional financial institutions because a large portion of our loans are to non-prime borrowers, who are unable to obtain financing from traditional sources due to their credit history. Although we attempt to mitigate these high credit risks with our underwriting standards and collection procedures, these standards and procedures may not offer adequate protection against the risk of default. In the event of a default, the collateral value of the financed vehicle usually does not cover the outstanding loan balance and costs of recovery. Higher than anticipated delinquencies and defaults on our Contracts would reduce our profitability.

In addition, in the event we were to make any bulk purchases of seasoned Contracts, we may experience higher than normal delinquency rates with respect to these loan portfolios due to our inability to apply our underwriting standards to each loan comprising the acquired portfolios. We would similarly attempt to mitigate the high credit risks associated with these loans, although no assurances can be given that we would be able to do so.

We depend upon our relationships with our dealers.

Our business depends in large part upon our ability to establish and maintain relationships with reputable dealers who originate the Contracts we purchase. Although we believe we have been successful in developing and maintaining such relationships, such relationships are not exclusive, and many of them are not longstanding. There can be no assurances that we will be successful in maintaining such relationships or increasing the number of dealers with whom we do business, or that our existing dealer base will continue to generate a volume of Contracts comparable to the volume of such Contracts historically generated by such dealers.

Our success depends upon our ability to implement our business strategy.

Our financial position depends on management s ability to execute our business strategy. Key factors involved in the execution of our business strategy include achievement of the desired Contract purchase volume, the use of effective risk management techniques and collection methods, continued investment in technology to support operating efficiency and continued access to significant funding and liquidity sources. Our failure or inability to execute any element of our business strategy could materially adversely affect our financial condition.

Our business is highly dependent upon general economic conditions.

During periods of economic slowdown or recession, delinquencies, defaults, repossessions and losses generally increase. These periods also may be accompanied by decreased consumer demand for automobiles and declining values of automobiles securing outstanding loans, which weakens collateral coverage on our loans and increases the amount of a loss we would experience in the event of default. Significant increases in the inventory of used automobiles during periods of economic recession may also depress the prices at which repossessed automobiles are sold or delay the timing of these sales. Because we focus on non-prime borrowers, the actual rates of delinquencies, defaults, repossessions and losses on these loans are higher than those experienced in the general automobile finance industry and could be more dramatically affected by a general economic downturn. In addition, during an economic slowdown or recession, our servicing costs may increase without a corresponding increase in our servicing income. While we seek to manage the higher risk inherent in loans made to non-prime borrowers through our underwriting criteria and collection methods, no assurance can be given that these criteria or methods will afford adequate protection against these risks. Any sustained period of increased delinquencies, defaults, repossessions or losses or increased servicing costs could adversely affect our financial condition.

Decreased auction proceeds resulting from the depressed prices at which used automobiles may be sold during periods of economic slowdown or recession will reduce our profitability.

If we repossess a vehicle securing a Contract, we typically have it transported to an automobile auction for sale. Auction proceeds from the sale of repossessed vehicles and other recoveries are usually not sufficient to cover the outstanding balance of the Contract, and the resulting deficiency is charged off. In addition, there is, on average, approximately a 30-day lapse between the time we repossess a vehicle and the time it is sold by a dealer or at auction. Furthermore, depressed wholesale prices for used automobiles may result from significant liquidations of rental or fleet inventories, and from increased volume of trade-ins due to promotional financing programs offered by new vehicle manufacturers. During periods of economic slowdown or recession, decreased auction proceeds resulting from the depressed prices at which used automobiles may be sold will result in our experiencing higher credit losses.

An increase in market interest rates may reduce our profitability.

Our long-term profitability may be directly affected by the level of and fluctuations in interest rates. Sustained, significant increases in interest rates may adversely affect our liquidity and profitability by reducing the interest rate spread between the rate of interest we receive on our Contracts and interest rates that we pay under our outstanding line of credit facility. As interest rates increase, our gross interest rate spread on new originations will generally decline since the rates charged on the Contracts originated or purchased from dealers generally are limited by statutory maximums, restricting our opportunity to pass on increased interest costs. We monitor the interest rate environment and have entered into interest rate swap agreements relating to a portion of our outstanding debt with maturities ranging from May 19, 2008 through February 2, 2011. Each of these agreements effectively converts a portion of our floating-rate debt to a fixed-rate, thus reducing the impact of interest rate changes on our interest expense. These interest rate swap agreements may not adequately mitigate the impact of changes in interest rates, however, and we may not be able to enter into such agreements in the future.

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Our growth depends upon our ability to retain and attract a sufficient number of qualified employees.

To a large extent, our growth strategy depends on the opening of new offices that will focus primarily on purchasing Contracts and making direct loans in markets we have not previously served. Future expansion of our office network depends upon our ability to attract and retain qualified and experienced office managers and the ability of such managers to develop relationships with dealers that serve those markets. We generally do not open new offices until we have located and hired a qualified and experienced individual to manage the office. Typically, this individual will be familiar with local market conditions and have existing relationships with dealers in the area to be served. Although we believe that we can attract and retain qualified and experienced personnel as we proceed with planned expansion into new markets, no assurance can be given that we will be successful in doing so. Competition to hire personnel possessing the skills and experience required by us could contribute to an increase in our employee turnover rate. High turnover or an inability to attract and retain qualified personnel could have an adverse effect on our origination, delinquency, default and net loss rates and, ultimately, our financial condition.

The loss of one of our key executives could have a material adverse effect on our business.

Our growth and development to date have been largely dependent upon the services of Peter L. Vosotas, our Chairman of the Board, President and Chief Executive Officer, and Ralph T. Finkenbrink, our Chief Financial Officer and Senior Vice President. We do not maintain key-man life insurance policies on these executives. Although we believe that we have sufficient additional experienced management personnel to accommodate the loss of any key executive, the loss of services of one or both of these executives could have a material adverse effect on us.

We are subject to risks associated with litigation.

As a consumer finance company, we are subject to various consumer claims and litigation seeking damages and statutory penalties, based upon, among other things:

- usury laws;
- disclosure inaccuracies;
- wrongful repossession;
- violations of bankruptcy stay provisions;
- certificate of title disputes;
- fraud;
- breach of contract; and
- discriminatory treatment of credit applicants.

Some litigation against us could take the form of class action complaints by consumers. As the assignee of Contracts originated by dealers, we may also be named as a co-defendant in lawsuits filed by consumers principally against dealers. The damages and penalties claimed by consumers in these types of actions can be substantial. The relief requested by the plaintiffs varies but may include requests for compensatory, statutory and punitive damages. No assurances can be given that we will not experience material financial losses in the future as a result of litigation and other legal proceedings.

We are subject to many laws and governmental regulations, and any material violations of or changes in these laws or regulations could have a material adverse effect on our financial condition and business operations.

Our financing operations are subject to regulation, supervision and licensing under various federal, state and local statutes and ordinances. Additionally, the procedures that we must follow in connection with the repossession of vehicles securing Contracts are regulated by each of the states in which we do business. The various federal, state and local statutes, regulations, and ordinances applicable to our business govern, among other things:

- licensing requirements;
- requirements for maintenance of proper records;
- payment of required fees to certain states;
- maximum interest rates that may be charged on loans to finance new and used vehicles;
- debt collection practices;
- proper disclosure to customers regarding financing terms;
- privacy regarding certain customer data;
- interest rates on loans to customers;
- telephone solicitation of direct loan customers; and
- collection of debts from loan customers who have filed bankruptcy.

We believe that we maintain all material licenses and permits required for our current operations and are in substantial compliance with all applicable local, state and federal regulations. Our failure, or failure by dealers who originate the Contracts we purchase, to maintain all requisite licenses and permits, and to comply with other regulatory requirements, could result in consumers having rights of rescission and other remedies that could have a material adverse effect on our financial condition. Furthermore, any changes in applicable laws, rules and regulations may make our compliance therewith more difficult or expensive or otherwise adversely affect our financial condition.

Our Chief Executive Officer and certain members of the Mahan family hold a significant percentage of our common stock and may take actions adverse to your interests.

Peter L. Vosotas, our Chairman of the Board, President and Chief Executive Officer, and certain members of the Mahan family, including the adult children of Marvin and Ingrid Mahan, and certain entities controlled by them, owned approximately 13.8% and 10.0%, respectively, of our common stock as of June 13, 2008. As a result, they may be able to significantly influence matters requiring shareholder approval, including the election and removal of directors and approval of significant corporate transactions, such as mergers, consolidations and sales of assets. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control or impeding a merger or consolidation, takeover or other business combination, which could cause the market price of our common stock to fall or prevent you from receiving a

premium in such transaction.

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Our stock is not heavily traded, which may limit your ability to resell your shares.

The average daily trading volume of our shares on the NASDAQ Global Select Market for the period from April 1, 2007 through March 31, 2008 was approximately 20,500 shares. Thus, our common stock is thinly traded. Thinly traded stock can be more volatile than stock trading in an active public market. Factors such as our financial results, the introduction of new products and services by us or our competitors, and various factors affecting the consumer-finance industry generally may have a significant impact on the market price of our common stock. In recent years, the stock market has experienced a high level of price and volume volatility, and market prices for the stocks of many companies have experienced wide price fluctuations that have not necessarily been related to their operating performance. Therefore, our shareholders may not be able to sell their shares at the volumes, prices, or times that they desire.

We operate in a competitive market.

The non-prime consumer-finance industry is highly competitive. There are numerous financial service companies that provide consumer credit in the markets served by us, including banks, credit unions, other consumer finance companies and captive finance companies owned by automobile manufacturers and retailers. Many of these competitors have substantially greater financial resources than us. In addition, our competitors often provide financing on terms more favorable to automobile purchasers or dealers than we offer. Many of these competitors also have long-standing relationships with automobile dealerships and may offer dealerships or their customers other forms of financing, including dealer floor-plan financing and leasing, which are not provided by us. Providers of non-prime consumer financing have traditionally competed primarily on the basis of:

- interest rates charged;
- the quality of credit accepted;
- the flexibility of loan terms offered;
- the quality of service provided.

Our ability to compete effectively with other companies offering similar financing arrangements depends on maintaining close relationships with dealers of new and used vehicles. We may not be able to compete successfully in this market or against these competitors.

We have focused on a segment of the market composed of consumers who typically do not meet the more stringent credit requirements of traditional consumer financing sources and whose needs, as a result, have not been addressed consistently by such financing sources. If, however, other providers of consumer financing were to assert a significantly greater effort to penetrate our targeted market segment, we may have to reduce our interest rates and fees in order to maintain our market share. Any reduction in our interest rates or fees could have an adverse impact on our profitability or financial condition.

We may experience problems with our integrated computer systems or be unable to keep pace with developments in technology.

We use various technologies in our business, including telecommunication, data processing, and integrated computer systems. Technology changes rapidly. Our ability to compete successfully with other financing companies may depend on whether we can exploit technological changes. We may not be able to exploit technological changes, and any investment we make in this area may not make us more profitable.

We utilize integrated computer systems to respond to customer inquiries and to monitor the performance of our Contract and direct loan portfolios and the performance of individual customers under our Contracts and direct loans. Problems with our systems operations could adversely impact our ability to monitor our portfolios or collect amounts due under our Contracts and direct loans, which could have a material adverse effect on our financial condition.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Company leases its Corporate Headquarters and branch office facilities. The Company s Headquarters, located at 2454 McMullen Booth Road, Building C, in Clearwater, Florida, consist of approximately 13,500 square feet of office space. The current lease relating to this space expires in January 2010.

Each of the Company s 47 branch offices located in Florida, Georgia, North Carolina, South Carolina, Michigan, Virginia, Ohio, Indiana, Maryland, Alabama and Kentucky consists of approximately 1,200 square feet of office space. These offices are located in office parks, shopping centers or strip malls and are occupied pursuant to leases with an initial term of from two to five years at annual rates ranging from approximately $9.00 to $24.00 per square foot. The Company believes that these facilities and additional or alternate space available to it are adequate to meet its needs for the foreseeable future.

Item 3. Legal Proceedings

The Company currently is not a party to any pending legal proceedings other than ordinary routine litigation incidental to its business, none of which, if decided adversely to the Company, would, in the opinion of management, have a material adverse affect on the Company s financial position.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter ended March 31, 2008.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Purchases of Equity Securities

The Company s common stock trades on the NASDAQ Global Select Market under the symbol NICK.

The following table sets forth the high and low sales prices of the Company s common stock for the years ended March 31, 2008 and 2007, respectively.

	High	Low
Fiscal year ended March 31, 2008		
First Quarter	**$ 12.61**	**$ 10.00**
Second Quarter	**$ 11.00**	**$ 8.00**
Third Quarter	**$ 9.49**	**$ 6.70**
Fourth Quarter	**$ 7.94**	**$ 5.86**

	High	Low
Fiscal year ended March 31, 2007		
First Quarter	$ 14.50	$ 11.51
Second Quarter	$ 14.50	$ 12.75
Third Quarter	$ 14.00	$ 11.10
Fourth Quarter	$ 12.07	$ 10.36

As of June 1, 2008, there were approximately 3,000 holders of record of the Company s common stock.

The Company did not pay any cash dividends during the fiscal years ended March 31, 2007 or 2008. The Company currently anticipates that all of its earnings will be retained for expansion of the Company s business, and it does not anticipate paying any cash dividends in the foreseeable future. Any payment of future dividends and the amounts thereof will be dependent upon the Company s earnings, financial requirements, and other factors deemed relevant by the Board of Directors. In addition, the Company s $115.0 million line of credit facility contains certain covenants which may restrict the Company s ability to pay cash dividends.

There are no Canadian foreign exchange controls or laws that would affect the remittance of dividends or other payments to the Company s non-Canadian resident shareholders. There are no Canadian laws that restrict the export or import of capital, other than the Investment Canada Act (Canada), which requires the notification or review of certain investments by non-Canadians to establish or acquire control of a Canadian business. The Company is not a Canadian business as defined under the Investment Canada Act because it has no place of business in Canada, has no individuals employed in Canada in connection with its business, and has no assets in Canada used in carrying on its business.

Canada and the United States of America are signatories to the Canada-United States Tax Convention Act, 1984 (the Tax Treaty). The Tax Treaty contains provisions governing the tax treatment of interest, dividends, gains and royalties paid to or received by a person residing in the United States. The Tax Treaty also contains provisions to prevent the occurrence of double taxation, essentially by permitting the taxpayer to claim a tax credit for taxes paid in the foreign jurisdiction.

Dividends paid to the Company from its U.S. subsidiaries current and accumulated earnings and profits will be subject to a U.S. withholding tax of 5%. The gross dividends (i.e., before payment of the withholding tax) must be included in the Company s net income. However, under certain circumstances, the Company may be allowed to deduct the dividends in the calculation of its Canadian taxable income. If the Company has no other foreign (i.e., non-Canadian) non-business income, no relief is available in that case to recover the withholding taxes previously paid.

A 15% Canadian withholding tax applies to dividends paid by the Company to a U.S. shareholder that is an individual. The U.S. shareholder must include the gross amount of the dividends in his net income to be taxed at the regular rates. A foreign tax credit will be available to the extent of the lesser of:

(i) withholding taxes paid (up to a maximum of 15% of certain foreign income from property); and

(ii) the U.S. taxes payable in respect to that foreign income.

Alternatively, an individual can claim the foreign withholding taxes paid as a deduction in the computation of income for tax purposes. If the withholding taxes paid exceed 15% of the foreign income from property, such excess must be deducted in computing net income.

Dividends paid to a corporate U.S. shareholder that owns less than 10% of the Company s voting shares are also subject to a Canadian withholding tax of 15%.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information, as of March 31, 2008, with respect to compensation plans under which equity securities of the Company were authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a) (c)
Equity Compensation Plans Approved by Security Holders	778,900	$ 4.85	580,250
Equity Compensation Plans Not Approved by Security Holders	None	Not Applicable	None
TOTAL	778,900	$ 4.85	580,250

Performance Graph

Set forth below is a graph comparing the cumulative total return on the Company s Common shares for the five-year period ended March 31, 2008, with that of an overall stock market (NASDAQ Composite) and the Company s peer group index (SNL Autofinance Index). The stock performance graph assumes that the value of the investment in each of the Company s Common shares, the NASDAQ Composite Index and the SNL Autofinance Index was $100 on April 1, 2003 and that all dividends were reinvested.

The graph displayed below is presented in accordance with Securities and Exchange Commission requirements. Shareholders are cautioned against drawing any conclusions from the data contained therein, as past results are not necessarily indicative of future performance. This graph in no way reflects the Company s forecast of future financial performance.

	Period Ending					
	3/31/2003	3/31/2004	3/31/2005	3/31/2006	3/31/2007	3/31/2008
Nicholas Financial, Inc.	100.00	242.91	471.14	467.61	438.16	242.25
NASDAQ Composite	100.00	148.69	149.07	174.46	180.56	169.93
SNL Autofinance Index	100.00	332.36	406.05	605.09	504.11	243.38

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Item 6. Selected Financial Data

The following tables present selected consolidated financial data as of and for the years ended March 31, 2008, 2007, 2006, 2005 and 2004. The selected consolidated financial data have been derived from our consolidated financial statements. All historical share and per share amounts have been restated for all periods presented to reflect a three-for-two stock split, payable on June 17, 2005 in the form of a 50% stock dividend, to shareholders of record as of the close of business on June 3, 2005.

You should read the selected consolidated financial data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and notes thereto that are included elsewhere in this Report on Form 10-K.

	Fiscal Year ended March 31,				
	2008	**2007**	**2006**	**2005**	**2004**
Statement of Operations Data					
Interest income on finance receivables	**$ 50,007,510**	$ 46,590,436	$ 42,502,615	$ 32,582,965	$ 25,236,638
Sales	**75,287**	118,938	174,055	248,928	263,847
	50,082,797	46,709,374	42,676,670	32,831,893	25,500,485
Interest expense	**6,310,465**	5,535,599	4,332,414	3,630,267	3,851,924
Provision for credit losses	**7,817,997**	3,690,405	3,908,953	2,396,985	2,198,501
Salaries and employee benefits	**12,572,038**	11,994,082	11,326,909	8,976,912	7,028,267
Other expenses	**7,816,469**	6,751,713	6,068,099	4,715,026	4,032,132
	34,516,969	27,971,799	25,636,375	19,719,190	17,110,824
Operating income before income taxes	**15,565,828**	18,737,575	17,040,295	13,112,703	8,389,661
Income tax expense	**5,893,652**	7,157,816	6,480,806	5,033,008	3,176,983
Net income	**$ 9,672,176**	$ 11,579,759	$ 10,559,489	$ 8,079,695	$ 5,212,678
Earnings per share basic:	**$ 0.97**	$ 1.17	$ 1.07	$ 0.85	$ 0.69
Weighted average shares outstanding	**10,002,505**	9,929,944	9,873,237	9,462,620	7,570,641
Earnings per share diluted:	**$ 0.94**	$ 1.13	$ 1.01	$ 0.80	$ 0.64
Weighted average shares outstanding	**10,298,924**	10,283,173	10,474,291	10,082,694	8,128,062

Item 6. Selected Financial Data (continued)

	As of and for the Fiscal Year ended March 31,				
	2008	**2007**	**2006**	**2005**	**2004**
Balance Sheet Data					
Total assets	$ 189,837,825	$ 173,019,248	$ 149,494,943	$ 120,815,441	$ 103,223,452
Finance receivables, net	179,043,344	164,364,715	140,197,738	113,708,122	97,236,516
Line of credit	99,937,198	94,012,099	82,415,917	65,330,897	67,510,290
Shareholders equity	78,576,439	69,806,985	58,249,175	46,757,894	27,445,593
Operating Data					
Return on average assets	5.33%	7.18%	7.81%	7.21%	5.39%
Return on average equity	13.04%	18.08%	20.11%	21.78%	21.05%
Gross portfolio yield (1)	26.18%	27.01%	28.40%	25.20%	22.60%
Pre-tax yield (1)	8.22%	10.89%	11.45%	10.18%	7.55%
Total delinquencies over 30 days	3.47%	2.18%	1.59%	1.46%	1.55%
Write-off to liquidation (1)	9.08%	6.72%	5.44%	6.28%	8.41%
Net charge-off percentage (1)	8.24%	6.30%	4.98%	5.46%	7.26%
Automobile Finance Data & Direct Loan Origination					
Contracts purchased/direct loans originated	$ 126,661,703	$ 128,865,697	$ 117,293,524	$ 92,745,349	$ 77,345,798
Average discount	8.32%	8.45%	8.78%	8.78%	8.95%
Weighted average contractual rate (1)	24.32%	23.99%	24.14%	24.15%	24.15%
Number of branch locations	47	47	42	35	29

(1) See definitions on page 26

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the Selected Financial Data and our consolidated financial statements and the notes to those statements appearing elsewhere in this Report. The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Report, particularly under the caption Risk Factors.

Overview

The Company is a Canadian holding company incorporated under the laws of British Columbia in 1986. The Company conducts its business activities through two wholly-owned Florida corporations: Nicholas Financial, which purchases and services Contracts, makes direct loans and sells consumer-finance related products; and NDS, which supports and updates certain computer application software. Nicholas Financial accounted for more than 99% of the Company s consolidated revenue for the fiscal years ended March 31, 2008, 2007 and 2006, respectively.

The Company s consolidated revenues increased for the fiscal year ended March 31, 2008 to $50.1 million as compared to $46.7 million and $42.7 million for the fiscal years ended March 31, 2007 and 2006, respectively. The Company s consolidated net income decreased for the fiscal year ended March 31, 2008 to $9.7 million compared to $11.6 million and $10.6 million for the fiscal years ended March 31, 2007 and 2006, respectively. The Company s earnings were negatively impacted by an increase in the net charge-off percentage from 6.30% for the year ended March 31, 2007 to 8.24% for the year ended March 31, 2008.

Portfolio Summary

	Fiscal Year ended March 31,		
	2008	2007	2006
Average finance receivables, net of unearned interest (1)	$ 191,012,129	$ 172,508,750	$ 149,634,203
Average indebtedness (2)	$ 97,124,666	$ 87,392,132	$ 73,664,722
Finance revenue (3)	$ 50,007,510	$ 46,590,436	$ 42,502,615
Interest expense	6,310,465	5,535,599	4,332,414
Net finance revenue	$ 43,697,045	$ 41,054,837	$ 38,170,201
Weighted average contractual rate (4)	24.32%	23.99%	24.14%
Average cost of borrowed funds (2)	6.50%	6.33%	5.88%
Gross portfolio yield (5)	26.18%	27.01%	28.40%
Interest expense as a percentage of average finance receivables, net of unearned interest	3.30%	3.21%	2.89%
Provision for credit losses as a percentage of average finance receivables, net of unearned interest	4.09%	2.14%	2.61%
Net portfolio yield (5)	18.79%	21.66%	22.90%
Operating expenses as a percentage of average finance receivables, net of unearned interest (6)	10.57%	10.77%	11.45%
Pre-tax yield as a percentage of average finance receivables, net of unearned interest (7)	8.22%	10.89%	11.45%
Write-off to liquidation (8)	9.08%	6.72%	5.44%
Net charge-off percentage (9)	8.24%	6.30%	4.98%

(1) Average finance receivables, net of unearned interest, represents the average of gross finance receivables, less unearned interest throughout the period.

(2) Average indebtedness represents the average outstanding borrowings under the Line and notes payable-related party. Average cost of borrowed funds represents interest expense as a percentage of average indebtedness.

(3) Finance revenue does not include revenue generated by NDS.

(4) Weighted average contractual rate represents the weighted average annual percentage rate (APR) of all Contracts purchased and direct loans originated during the period.

(5) Gross portfolio yield represents finance revenues as a percentage of average finance receivables, net of unearned interest. Net portfolio yield represents finance revenue minus (a) interest expense and (b) the provision for credit losses as a percentage of average finance receivables, net of unearned interest.

(6) Operating expenses represent total expenses, less interest expense, the provision for credit losses and operating costs associated with NDS.

(7) Pre-tax yield represents net portfolio yield minus operating expenses as a percentage of average finance receivables, net of unearned interest.

(8) Write-off to liquidation percentage is defined as net charge-offs divided by liquidation. Liquidation is defined as beginning receivable balance plus current period purchases minus voids and refinances minus ending receivable balance.

(9) Net charge-off percentage represents net charge-offs divided by average finance receivables, net of unearned interest, outstanding during the period.

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The following table presents certain information regarding the delinquency rates experienced by the Company with respect to Contracts and under its direct loan program:

	At March 31, 2008		At March 31, 2007		At March 31, 2006	
Contracts						
Gross Balance Outstanding	**$ 270,053,583**		$ 247,002,051		$ 214,509,842	
Delinquencies	**Dollar Amount**	**Percent**	**Dollar Amount**	**Percent**	**Dollar Amount**	**Percent**
30 59 days	**$ 6,747,067**	**2.50%**	$ 4,072,821	1.65%	$ 2,718,246	1.27%
60 89 days	**1,798,287**	**0.66%**	921,097	0.37%	521,319	0.24%
90 + days	**831,647**	**0.31%**	506,433	0.21%	220,664	0.10%
Total Delinquencies	**$ 9,377,001**	**3.47%**	$ 5,500,351	2.23%	$ 3,460,229	1.61%
Direct Loans						
Gross Balance Outstanding	**$ 10,161,929**		$ 9,990,060		$ 8,208,542	
Delinquencies						
30 59 days	**$ 181,244**	**1.79%**	$ 65,982	0.66%	$ 59,910	0.73%
60 89 days	**51,974**	**0.51%**	12,024	0.12%	16,258	0.20%
90 + days	**58,065**	**0.57%**	21,476	0.22%	10,139	0.12%
Total Delinquencies	**$ 291,283**	**2.87%**	$ 99,482	1.00%	$ 86,307	1.05%

Critical Accounting Policy

The Company s critical accounting policy relates to the allowance for losses on loans. It is based on management s opinion of an amount that is adequate to absorb losses in the existing portfolio. The allowance for credit losses is established through allocations of dealer discount and a provision for loss based on management s evaluation of the risk inherent in the loan portfolio, the composition of the portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of all loans on which full collectibility may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience, management s estimate of probable credit losses and other factors that warrant recognition in providing for an adequate credit loss allowance.

Because of the nature of the customers under the Company s Contracts and its direct loan program, the Company considers the establishment of adequate reserves for credit losses to be imperative. The Company segregates its Contracts into static pools for purposes of establishing reserves for losses. All Contracts purchased by a branch during a fiscal quarter comprise a static pool. The Company pools Contracts according to branch location because the branches purchase Contracts in different geographic markets. This method of pooling by branch and quarter allows the Company to evaluate the different markets where the branches operate. The pools also allow the Company to evaluate the different levels of customer income, stability, credit history, and the types of vehicles purchased in each market. Each such static pool consists of the Contracts purchased by a branch office during the fiscal quarter.

Contracts are purchased from many different dealers and are all purchased on an individual Contract by Contract basis. Individual Contract pricing is determined by the automobile dealerships and is generally the lesser of state maximum interest rates or the maximum interest rate at which the customer will accept. In certain markets, competitive forces will drive down Contract rates from the maximum rate to a level where an individual competitor is willing to buy an individual Contract. The Company only buys Contracts on an individual basis and never purchases Contracts in batches, although the Company does consider portfolio acquisitions as part of its growth strategy.

The Company has detailed underwriting guidelines it utilizes to determine which Contracts to purchase. These guidelines are specific and are designed to cause all of the Contracts that the Company purchases to have common risk characteristics. The Company utilizes its District Managers to evaluate their respective branch locations for adherence to these underwriting guidelines. The Company also utilizes an internal audit department to assure adherence to its underwriting guidelines. The Company utilizes the branch model, which allows for Contract purchasing to be done on the branch level. Each Branch Manager may interpret the guidelines differently, and as a result, the common risk characteristics tend to be the same on an individual branch level but not necessarily compared to another branch.

A dealer discount represents the difference between the finance receivable, net of unearned interest, of a Contract, and the amount of money the Company actually pays for the Contract. The discount negotiated by the Company is a function of the credit quality of the customer and the wholesale value of the vehicle. The automotive dealer accepts these terms by executing a dealer agreement with the Company. The entire amount of discount is related to credit quality and is considered to be part of the credit loss reserve. The Company utilizes a static pool approach to track portfolio performance. A static pool retains an amount equal to 100% of the discount as a reserve for credit losses.

Subsequent to the purchase, if the reserve for credit losses is determined to be inadequate for a static pool which is not fully liquidated, then an additional charge to income through the provision is used to reestablish adequate reserves. For static pools not fully liquidated that are deemed to have excess reserves, such amounts are then considered when calculating the provision for credit losses on specific pools. If a static pool is fully liquidated and has any remaining reserves, these excess reserves are immediately reversed during the period.

In analyzing a static pool, the Company considers the performance of prior static pools originated by the branch office, the performance of prior Contracts purchased from the dealers whose Contracts are included in the current static pool, the credit rating of the customers under the Contracts in the static pool, and current market and economic conditions. Each static pool is analyzed monthly to determine if the loss reserves are adequate and adjustments are made if they are determined to be necessary.

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Fiscal 2008 compared to Fiscal 2007

Interest and Fee Income on Finance Receivables

Interest income on finance receivables, predominantly finance charge income, increased 8% to $50.0 million in fiscal 2008 from $46.6 million in fiscal 2007. The average finance receivables, net of unearned interest, totaled $191.0 million for the year ended March 31, 2008, an increase of 11% from $172.5 million for the year ended March 31, 2007. The primary reason average finance receivables, net of unearned interest increased was the increase in the receivable base of several existing branches and the development of two new markets in Tennessee. The gross finance receivable balance increased 9% to $280.2 million at March 31, 2008 from $257.0 million at March 31, 2007. The primary reason interest income increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased from 27.01% for the fiscal year ended March 31, 2007 to 26.18% for the fiscal year ended March 31, 2008. The net portfolio yield decreased from 21.66% for the fiscal year ended March 31, 2007 to 18.79% for the fiscal year ended March 31, 2008. The gross portfolio yield decreased due to a combination of a change to reflect interest earned on a contractual basis, as opposed to on the basis of expected yield (see discussion under Analysis of Credit Losses below), together with decreases in accretion of discounts due to deterioration in portfolio performance. The net portfolio yield decreased due to the above factors, net of additional provisions for credit losses required for the change in the recognition of interest and the resulting affect on credit loss provisions.

Computer Software Business

Sales for the fiscal year ended March 31, 2008 were $75,287 as compared to $118,938 for the fiscal year ended March 31, 2007, a decrease of 37%. This decrease was primarily due to lower revenue from the existing customer base during the fiscal year ended March 31, 2008. Cost of sales and operating expenses increased to $206,955 for the fiscal year ended March 31, 2008 from $164,209 for the fiscal year ended March 31, 2007.

Operating Expenses

Total expenses, less the provision for credit losses, interest expense and costs associated with NDS, increased to $20.3 million for the fiscal year ended March 31, 2008 from $18.6 million for the fiscal year ended March 31, 2007. This increase of 9% was primarily attributable to additional staffing at several existing branches and increased general operating expenses. Operating expenses as a percentage of average finance receivables, net of unearned interest, decreased from 10.77% for the fiscal year ended March 31, 2007 to 10.57% for the fiscal year ended March 31, 2008.

Interest Expense

Interest expense increased to $6.3 million for the fiscal year ended March 31, 2008 from $5.5 million for the fiscal year ended March 31, 2007. The average indebtedness for the fiscal year ended March 31, 2008 increased to $97.1 million as compared to $87.4 million for the fiscal year ended March 31, 2007. The average cost of borrowed funds increased from 6.33% during the fiscal year ended March 31, 2007 to 6.50% during the fiscal year ended March 31, 2008.

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Analysis of Credit Losses

As of March 31, 2008, the Company had 855 active static pools. The average pool upon inception consisted of 67 Contracts with aggregate finance receivables, net of unearned interest, of approximately $618,000.

The following table sets forth a reconciliation of the changes in the allowance for credit losses on Contracts for the fiscal years ended March 31:

	2008	2007
Balance at beginning of year	**$ 20,638,912**	$ 22,274,255
Discounts acquired on new volume	**9,715,284**	10,024,971
Losses absorbed	**(17,417,160)**	(12,560,921)
Current year provision	**7,355,973**	3,347,810
Recoveries	**1,848,816**	1,722,580
Discounts accreted	**(2,029,565)**	(4,169,783)
Balance at end of year	**$ 20,112,260**	$ 20,638,912

The following table sets forth a reconciliation of the changes in the allowance for credit losses on direct loans for the fiscal years ended March 31:

	2008	2007
Balance at beginning of year	**$ 324,688**	$ 293,767
Current year provision	**374,832**	279,255
Losses absorbed	**(409,251)**	(276,065)
Recoveries	**44,788**	27,731
Balance at end of year	**$ 335,057**	$ 324,688

Reserves accreted into income for the year ended March 31, 2008 were approximately $2.0 million as compared to $4.2 million for the year ended March 31, 2007. Provisions reversed for the year ended March 31, 2008 and 2007 were $367,000 and $1.0 million, respectively. The primary reason for the decrease in reserves accreted during the year ended March 31, 2008 as compared to the year ended March 31, 2007 was an increase in the net charge-off percentage from 6.30% to 8.24%. The primary reason for reversal of provisions previously recorded was due to the charge-off performance of static pools originated from April 2005 through December 2005.

The average dealer discount associated with new volume for the years ended March 31, 2008 and 2007 were 8.32% and 8.45%, respectively.

The provision for credit losses increased to $7.8 million for the year ended March 31, 2008 from $3.7 million for the year ended March 31, 2007, largely due to the increase in the net charge-off rate from 6.30% for the year ended March 31, 2007 to 8.24% for the year ended March 31, 2008. The Company s losses as a percentage of liquidation increased from 6.72% for the fiscal year ended March 31, 2007 to 9.08% for the fiscal year ended March 31, 2008. The longer term outlook for portfolio performance will depend on overall economic conditions, the unemployment rate and the Company s ability to monitor, manage and implement its underwriting philosophy in additional geographic areas as it strives to continue its expansion. The Company does not believe there have been any significant changes in loan concentrations, terms or quality of Contracts purchased during fiscal 2008 that would have contributed to the increase in losses.

Recoveries as a percentage of charge-offs were 11.7% and 15.3% for the fiscal years ended March 31, 2008 and 2007, respectively. The Company believes that as it continues to expand its operations, it will become more difficult to implement its loss recovery model in geographic areas further away from its Corporate headquarters, and as a result the Company will likely experience declining recovery rates over the long term. Recovery rates are also influenced by general economic conditions and as a result the year ended March 31, 2008 experienced recovery rates that were below historical averages.

The Company considers the following factors to assist in determining the appropriate loss reserve levels; unemployment rates, the number of bankruptcy filings, the results of internal branch audits, consumer sentiment, consumer spending, economic growth (GDP), condition of the housing sector and other leading economic indicators. As a result of weakness in the overall economy, the Company has increased its targeted reserve levels on static pools originated since September 2006, and the Company continues to re-evaluate reserve levels on a pool by pool basis during each reporting period.

The delinquency percentage for Contracts more than thirty days past due as of March 31, 2008 increased to 3.47% from 2.23% as of March 31, 2007. The delinquency percentage for direct loans more than thirty days past due as of March 31, 2008 increased to 2.87% from 1.00% as of March 31, 2007. The Company utilizes a static pool approach to analyzing portfolio performance and looks at specific static pool performance and recent trends as leading indicators to future performance of the portfolio.

The Company has experienced a material increase in the net charge-off rate from 6.30% in fiscal 2007 to 8.24% in fiscal 2008. As a result of this increase, the Company has increased its targeted reserve levels on all static pools originated since April 2006. For the year ended March 31, 2008 the provision for credit losses increased 110% to $7.8 million versus $3.7 million for the year ended March 31, 2007. This increase was necessary, even though gross receivables only increased 9% for the year, to properly reflect an allowance for credit losses that management believes will be adequate based on the current loss environment. The primary reasons for the increase in the charge-off rate are attributable to a material increase in the price of oil, which has lead to higher prices for the cost of gasoline, food and other items used on a weekly basis by our customers. The Company has also seen many of its customers who have either lost their jobs, had their hours cut back or have been unable to maintain second part-time jobs in order to meet their debt obligations. The Company is also experiencing a recent increase in the number of bankruptcy filings. The Company does not see any catalyst to change these dynamics in the short-term and anticipates charge-off s continuing to rise during fiscal year 2009. The Company has not seen any evidence that its increase in the charge-off rate is related to deviations in its underwriting guidelines or fundamental business execution policies.

Income Taxes

The provision for income taxes decreased 18% to approximately $5.9 million in fiscal year 2008 from approximately $7.2 million in fiscal year 2007 primarily as a result of lower pretax income. The Company s effective tax rate decreased from 38.20% in fiscal 2007 to 37.86% in fiscal 2008.

Fiscal 2007 compared to Fiscal 2006

Interest and Fee Income on Finance Receivables

Interest income on finance receivables, predominantly finance charge income, increased 7% to $46.6 million in fiscal 2007 from $42.5 million in fiscal 2006. The average finance receivables, net of unearned interest, totaled $172.5 million for the year ended March 31, 2007, an increase of 15% from $149.6 million for the year ended March 31, 2006. The primary reason average finance receivables, net of unearned interest increased was the increase in the receivable base of several existing branches and the opening of five additional branch locations. The gross finance receivable balance increased 15% to $257.0 million at March 31, 2007 from $222.7 million at March 31, 2006. The primary reason interest income increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased from 28.40% for the fiscal year ended March 31, 2006 to 27.01% for the fiscal year ended March 31, 2007. The net portfolio yield decreased from 22.90% for the fiscal year ended March 31, 2006 to 21.66% for the fiscal year ended March 31, 2007. The gross portfolio yield decreased due to a combination of a change to reflect interest earned on a contractual basis, as opposed to on the basis of expected yield (see discussion under Analysis of Credit Losses below), together with decreases in accretion of discounts due to deterioration in portfolio performance. The net portfolio yield decreased due to the above factors, net of additional provisions for credit losses required for the change in the recognition of interest and the resulting affect on credit loss provisions.

Computer Software Business

Sales for the fiscal year ended March 31, 2007 were $118,938 as compared to $174,055 for the fiscal year ended March 31, 2006, a decrease of 32%. This decrease was primarily due to lower revenue from the existing customer base during the fiscal year ended March 31, 2007. Cost of sales and operating expenses decreased from $264,754 for the fiscal year ended March 31, 2006 to $164,209 for the fiscal year ended March 31, 2007. This decrease was primarily attributable to the decrease in sales for the fiscal year ended March 31, 2007.

Operating Expenses

Total expenses, less the provision for credit losses, interest expense and costs associated with NDS, increased to $18.6 million for the fiscal year ended March 31, 2007 from $17.1 million for the fiscal year ended March 31, 2006. This increase of 8% was primarily attributable to additional staffing at several existing branches, increased general operating expenses and the opening of five additional branch offices. Operating expenses as a percentage of average finance receivables, net of unearned interest, decreased from 11.45% for the fiscal year ended March 31, 2006 to 10.77% for the fiscal year ended March 31, 2007.

Interest Expense

Interest expense increased from $4.3 million for the fiscal year ended March 31, 2006 as compared to $5.5 million for the fiscal year ended March 31, 2007. The average indebtedness for the fiscal year ended March 31, 2007 increased to $87.4 million as compared to $73.7 million for the fiscal year ended March 31, 2006. The average cost of borrowed funds increased from 5.88% during the fiscal year ended March 31, 2006 to 6.33% during the fiscal year ended March 31, 2007.

Analysis of Credit Losses

As of March 31, 2007, the Company had 774 active static pools. The average pool upon inception consisted of 71 Contracts with aggregate finance receivables, net of unearned interest, of approximately $638,000.

The following table sets forth a reconciliation of the changes in the allowance for credit losses on Contracts.

	Fiscal Year ended March 31,	
	2007	**2006**
Balance at beginning of year	**$ 22,274,255**	$ 25,046,937
Discounts acquired on new volume	**10,024,971**	9,486,606
Losses absorbed	**(12,560,921)**	(9,029,935)
Current period provision	**3,347,810**	3,651,148
Recoveries	**1,722,580**	1,425,967
Dealer discounts accreted	**(4,169,783)**	(8,306,468)
Balance at end of year	**$ 20,638,912**	$ 22,274,255

The following table sets forth a reconciliation of the changes in the allowance for credit losses on direct loans.

	Fiscal Year ended March 31,	
	2007	**2006**
Balance at beginning of year	**$ 293,767**	$ 199,653
Current period provision	**279,255**	216,837
Losses absorbed	**(276,065)**	(158,590)
Recoveries	**27,731**	35,867
Balance at end of year	**$ 324,688**	$ 293,767

Reserves accreted into income for the year ended March 31, 2007 were approximately $4.2 million as compared to $8.3 million for the year ended March 31, 2006. Provisions reversed for the year ended March 31, 2007 were $1.0 million and there were no provisions reversed for the year ended March 31, 2006. The primary reason for the decrease in reserves accreted during the year ended March 31, 2007 as compared to the year ended March 31, 2006 was an increase in the net charge-off percentage from 4.98% to 6.30%. The primary reason for reversal of provisions previously recorded was due to the charge-off performance of static pools originated from April 2005 through September 2005.

The average dealer discount associated with new volume for the years ended March 31, 2007 and 2006 were 8.45% and 8.78%, respectively.

The provision for credit losses decreased from $3.9 million for the year ended March 31, 2006 to $3.7 million for the year ended March 31, 2007, largely due to excess reserves from seasoned static pools which have been adjusted during the 2007 fiscal year. The Company s losses as a percentage of liquidation increased from 5.44% for the fiscal year ended March 31, 2006 to 6.72% for the fiscal year ended March 31, 2007. The longer term outlook for portfolio performance will depend on the overall economic conditions, the unemployment rate and the Company s ability to monitor, manage and implement its underwriting philosophy in additional geographic areas as it strives to continue its expansion. The Company does not believe there have been any significant changes in loan concentrations, terms or quality of Contracts purchased during fiscal 2007 that would have contributed to the increase in losses.

Recoveries as a percentage of charge-offs were 15.3% and 18.9% for the fiscal years ended March 31, 2007 and 2006, respectively. The Company believes that as it continues to expand its operations, it will become more difficult to implement its loss recovery model in geographic areas further away from its Corporate headquarters, and as a result the Company will likely experience declining recovery rates over the long term.

The U.S. unemployment rate has dropped slightly over the past year. The Company believes there is a correlation between the unemployment rate and future portfolio performance. The Company does not expect the U.S. unemployment rate to rise or fall significantly in the foreseeable future. Therefore the Company does not plan on increasing or decreasing reserves based on the current U.S. unemployment rate. The Company also analyzes bankruptcy filings, voluntary repossession rates and the results of internal branch audits to measure the credit quality of its respective branches as other tools to predict future portfolio performance. These indicators have not changed materially in the past year and the Company does not anticipate any change to reserve levels as such.

The delinquency percentage for Contracts more than thirty days past due as of March 31, 2007 increased to 2.23% from 1.61% as of March 31, 2006. The delinquency percentage for direct loans more than thirty days past due as of March 31, 2007 decreased to 1.00% from 1.05% as of March 31, 2006. The Company does not give significant consideration to short-term trends in delinquency when evaluating reserve levels. Delinquency percentages tend to be volatile and are not necessarily an indication of future losses. The Company utilizes a static pool approach to analyzing portfolio performance and looks at specific static pool performance and recent trends as leading indicators to future performance of the portfolio.

Income Taxes

The provision for income taxes increased 11% to approximately $7.2 million in fiscal year 2007 from approximately $6.5 million in fiscal year 2006 primarily as a result of higher pretax income. The Company s effective tax rate increased from 38.03% in fiscal 2006 to 38.20% in fiscal 2007.

Liquidity and Capital Resources

The Company s cash flows are summarized as follows:

	Fiscal Year ended March 31,		
	2008	**2007**	**2006**
Cash provided by (used in):			
Operations	**$ 16,857,054**	$ 16,098,666	$ 15,481,420
Investing activities - (primarily purchase of Contracts)	**(22,881,917)**	(28,394,301)	(31,107,846)
Financing activities	**6,823,121**	12,065,771	16,501,989
Net (decrease) increase in cash	**$ 798,258**	$ (229,864)	$ 875,563

The Company s primary use of working capital during fiscal year ended March 31, 2008 was the funding of the purchase of Contracts. The Contracts were financed substantially through borrowings under the Company s $115.0 million Line. The Line is secured by all of the assets of Nicholas Financial. The Company may borrow the lesser of $115.0 million or amounts based upon formulas principally related to a percentage of eligible finance receivables, as defined. Borrowings under the Line may be under various LIBOR pricing options or at the prime rate. Prime rate based borrowings are generally less than $5.0 million. As of March 31, 2008, the amount outstanding under the Line was approximately $99.9 million and the amount available under the Line was approximately $15.1 million.

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The Company has entered into interest rate swap agreements, each of which effectively converts a portion of the Company s floating-rate debt to a fixed-rate, thus reducing the impact of interest rate change on the Company s interest expense. At March 31, 2008, approximately 80% of the Company s borrowings under the Line were subject to interest rate swap agreements. These swap agreements have maturities ranging from May 19, 2008 through February 2, 2011.

The self-liquidating nature of Contracts and other loans enables the Company to assume a higher debt-to-equity ratio than in most businesses. The amount of debt the Company incurs from time to time under these financing mechanisms depends on the Company s need for cash and ability to borrow under the terms of the Line. The Company believes that borrowings available under the Line as well as cash flow from operations will be sufficient to meet its short term funding needs.

Impact of Inflation

The Company is affected by inflation primarily through increased operating costs and expenses including increases in interest rates. Inflationary pressures on operating costs and expenses have been offset by the Company s continued emphasis on stringent operating and cost controls. Management believes that the Company s financial condition has enabled it to negotiate favorable interest rates under its existing Line. No assurances can be given that the Company will be able to continue to do so in the future.

Contractual Obligations

The following table summarizes the Company s material obligations as of March 31, 2008.

Years ending March 31,	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Operating leases	$ 1,131,501	$ 813,756	$ 250,635	$ 67,134	$ 21,600	$ 2,284,626
Line of credit			99,937,198			99,937,198
Total	$ 1,131,501	$ 813,756	$ 100,550,029	$ 67,134	$ 21,600	$ 102,221,824

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risks relating to the Company s operations result primarily from changes in interest rates. The Company does not engage in speculative or leveraged transactions, nor does it hold or issue financial instruments for trading purposes.

Interest Rate Risk

Management s objective is to minimize the cost of borrowing through an appropriate mix of fixed and floating rate debt. Derivative financial instruments, such as interest rate swap agreements, may be used for the purpose of managing fluctuating interest rate exposures that exist from ongoing business operations. There was no ineffectiveness associated with the interest rate swap agreements during the year ended March 31, 2008.

Item 8. Financial Statements and Supplementary Data

The following financial statements are filed as part of this report (see pages 37-60)

Report of Independent Registered Public Accounting Firm 37

Audited Consolidated Financial Statements

Consolidated Balance Sheets 38
Consolidated Statements of Income 39
Consolidated Statements of Shareholders Equity 40
Consolidated Statements of Cash Flows 41
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Nicholas Financial, Inc.

We have audited the accompanying consolidated balance sheets of Nicholas Financial, Inc. and subsidiaries (the Company) as of March 31, 2008 and 2007 and the related consolidated statements of income, shareholders equity, and cash flows for each of the years in the three-year period ended March 31, 2008. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 16, 2008 expressed an unqualified opinion thereon.

/s/ Dixon Hughes PLLC
Atlanta, Georgia
June 16, 2008

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Nicholas Financial, Inc. and Subsidiaries

Consolidated Balance Sheets

	March 31,	
	2008	**2007**
Assets		
Cash	**$ 2,297,451**	$ 1,499,193
Finance receivables, net	**179,043,344**	164,364,715
Accounts receivable	**4,201**	17,858
Assets held for resale	**1,130,183**	887,687
Prepaid expenses and other assets	**656,415**	578,095
Property and equipment, net	**844,086**	1,014,698
Derivatives		659,724
Income taxes recoverable	**686,528**	
Deferred income taxes	**5,175,617**	3,997,278
Total assets	**$ 189,837,825**	$ 173,019,248
Liabilities and shareholders equity		
Line of credit	**$ 99,937,198**	$ 94,012,099
Drafts payable	**1,433,223**	1,291,948
Accounts payable and accrued expenses	**5,803,695**	6,155,492
Income taxes payable		225,648
Deferred revenues	**1,477,272**	1,527,076
Derivatives	**2,609,998**	
Total liabilities	**111,261,386**	103,212,263
Commitments and contingencies		
Shareholders equity:		
Preferred stock, no par: 5,000,000 shares authorized; none issued and outstanding		
Common stock, no par: 50,000,000 shares authorized; 10,230,031 and 9,984,281 shares issued and outstanding, respectively	**17,204,883**	16,088,477
Accumulated other comprehensive (loss) income	**(1,610,891)**	408,237
Retained earnings	**62,982,447**	53,310,271
Total shareholders equity	**78,576,439**	69,806,985
Total liabilities and shareholders equity	**$ 189,837,825**	$ 173,019,248

See accompanying notes.

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Nicholas Financial, Inc. and Subsidiaries

Consolidated Statements of Income

	Year ended March 31,		
	2008	**2007**	**2006**
Revenue:			
Interest and fee income on finance receivables	**$ 50,007,510**	$ 46,590,436	$ 42,502,615
Sales	**75,287**	118,938	174,055
	50,082,797	46,709,374	42,676,670
Expenses:			
Cost of sales	**34,589**	17,838	45,230
Marketing	**1,309,140**	1,234,588	1,242,337
Salaries and employee benefits	**12,572,038**	11,994,082	11,326,909
Administrative	**6,121,641**	5,136,534	4,445,274
Provision for credit losses	**7,817,997**	3,690,405	3,908,953
Depreciation	**351,099**	362,754	335,258
Interest expense	**6,310,465**	5,535,599	4,332,414
	34,516,969	27,971,799	25,636,375
Operating income before income taxes	**15,565,828**	18,737,575	17,040,295
Income tax expense	**5,893,652**	7,157,816	6,480,806
Net income	**$ 9,672,176**	$ 11,579,759	$ 10,559,489
Earnings per share:			
Basic	**$ 0.97**	$ 1.17	$ 1.07
Diluted	**$ 0.94**	$ 1.13	$ 1.01

See accompanying notes.

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Nicholas Financial, Inc. and Subsidiaries

Consolidated Statements of Shareholders Equity

	Common Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders Equity
	Shares	Amount			
Balance at March 31, 2005	9,840,531	$ 15,127,922	$ 458,949	$ 31,171,023	$ 46,757,894
Issuance of common stock under stock option	72,400	115,700			115,700
Income tax benefit on share awards		282,366			282,366
Net income				10,559,489	10,559,489
Mark to market interest rate swaps			533,726		533,726
Balance at March 31, 2006	9,912,931	15,525,988	992,675	41,730,512	58,249,175
Issuance of common stock under stock options	26,350	65,826			65,826
Issuance of restricted share awards	45,000				
Income tax benefit on share awards		103,987			103,987
Share-based compensation		392,676			392,676
Net income				11,579,759	11,579,759
Mark to market interest rate swaps			(584,438)		(584,438)
Balance at March 31, 2007	9,984,281	16,088,477	408,237	53,310,271	69,806,985
Issuance of common stock under stock options	**206,750**	**280,349**			**280,349**
Issuance of restricted and performance share awards	**39,000**				
Income tax benefit on share awards		**448,666**			**448,666**
Share-based compensation		**387,391**			**387,391**
Net income				**9,672,176**	**9,672,176**
Mark to market interest rate swaps			**(2,019,128)**		**(2,019,128)**
Balance at March 31, 2008	**10,230,031**	**$ 17,204,883**	**$ (1,610,891)**	**$ 62,982,447**	**$ 78,576,439**

See accompanying notes.

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Nicholas Financial, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year ended March 31, 2008	2007	2006
Cash flows from operating activities:			
Net income	**$ 9,672,176**	$ 11,579,759	$ 10,559,489
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**351,099**	362,754	335,258
Gain on sale of property and equipment	**(37,692)**	(50,163)	(10,560)
Provision for credit losses	**7,817,997**	3,690,405	3,908,953
Deferred income taxes	**44,523**	66,291	(334,458)
Share-based compensation	**387,391**	392,676	
Changes in operating assets and liabilities:			
Accounts receivable	**13,657**	(6,220)	1,211
Prepaid expenses and other assets	**(78,320)**	(7,372)	(62,771)
Accounts payable and accrued expenses	**(351,797)**	90,758	1,211,947
Income taxes payable/recoverable	**(912,176)**	48,091	(363,342)
Deferred revenues	**(49,804)**	(68,313)	235,693
Net cash provided by operating activities	**16,857,054**	16,098,666	15,481,420
Cash flows from investing activities:			
Purchase and origination of finance contracts	**(111,091,212)**	(112,866,748)	(104,824,762)
Principal payments received	**88,594,586**	85,009,367	74,426,193
Increase in assets held for resale	**(242,496)**	(97,463)	(259,994)
Purchase of property and equipment	**(189,845)**	(515,908)	(487,283)
Proceed from sale of property and equipment	**47,050**	76,451	38,000
Net cash used in investing activities	**(22,881,917)**	(28,394,301)	(31,107,846)
Cash flows from financing activities:			
Repayment of notes payable related party			(1,000,000)
Net proceeds from line of credit	**5,925,099**	11,596,182	17,085,020
Increase in drafts payable	**141,275**	299,777	18,903
Proceeds from exercise of stock options	**280,349**	65,826	115,700
Net excess tax benefits related to exercise of stock options and issuance of performance share awards	**476,398**	103,986	282,366
Net cash provided by financing activities	**6,823,121**	12,065,771	16,501,989
Net (decrease) increase in cash	**798,258**	(229,864)	875,563
Cash, beginning of year	**1,499,193**	1,729,057	853,494
Cash, end of year	**$ 2,297,451**	$ 1,499,193	$ 1,729,057
Supplemental disclosure of noncash investing and financing activities:			
Change in derivatives and related taxes	**$ (2,019,128)**	$ (584,438)	$ 533,726
Shortfall of tax benefits from the issuance of performance share awards	**$ (27,732)**	$	$

See accompanying notes.

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Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Organization

Nicholas Financial, Inc. (Nicholas Financial Canada) is a Canadian holding company incorporated under the laws of British Columbia with two wholly-owned United States subsidiaries, Nicholas Data Services, Inc. (NDS) and Nicholas Financial, Inc. (NFI). NDS is engaged principally in the development, marketing and support of computer application software. NFI is engaged principally in providing installment sales financing. Both NDS and NFI are based in Florida, U.S.A. The accompanying consolidated financial statements are stated in U.S. dollars and are presented in accordance with accounting principles generally accepted in the United States of America.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Nicholas Financial Canada and its wholly owned subsidiaries, NDS and NFI, collectively referred to as the Company. All intercompany transactions and balances have been eliminated.

Reclassification

Certain amounts in our prior-period consolidated financial statements and notes have been reclassified to conform to the current-period presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses on finance receivables, the net realizable value of assets held for resale, and the fair value of derivative instruments.

Finance Receivables

Finance receivables are recorded at cost, net of unearned interest, and an allowance for credit losses.

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Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Allowance for Loan Losses

The allowance for loan losses is increased by charges against earnings and decreased by charge-offs (net of recoveries). In addition to the allowance for loan losses, a reserve for credit losses has been established using dealer discounts to absorb potential credit losses. To the extent actual credit losses exceed these reserves, a bad debt provision is recorded; and to the extent credit losses are less than the reserve, the reserve is accreted into income over the remaining estimated life of the static pool. The Company aggregates Contracts into static pools consisting of Contracts purchased during a three-month period for each branch location. Management s periodic evaluation of the adequacy of the allowance is based on the Company s past loan experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral, and current economic conditions. As conditions change, the Company s level of provisioning and/or allowance may change as well.

Assets Held for Resale

Assets held for resale are stated at net realizable value and consist primarily of automobiles that have been repossessed by the Company and are awaiting final disposition. Costs associated with repossession, transport, and auction preparation expenses are charges reported under operating expenses in the period in which they were incurred. The Company maintains full responsibility for repossessions

Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

Automobiles	3 years
Equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	Lesser of lease term or useful life (generally 6 - 7 years)

Drafts Payable

Drafts payable represent checks disbursed for loan purchases which have not yet been funded through the line of credit. Amounts generally clear within two business days of period end and are then added to the line of credit.

Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date.

Effective April 1, 2007 the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 , or FIN 48. The Company concluded that there are no significant uncertain tax positions requiring recognition in the consolidated financial statements. Accordingly, the adoption of FIN 48 did not have a material effect on the Company s consolidated financial statements.

The Company files income tax returns in the U.S. Federal jurisdiction and various states. The Company is no longer subject to U.S. Federal tax examinations for years before 2005. State jurisdictions that remain subject to examination range from 2003 to 2006. The Company does not believe there will be any material changes in our unrecognized tax positions over the next 12 months.

The Company s policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor has the Company recognized any related interest expense during fiscal 2008.

Revenue Recognition

Interest income on finance receivables is recognized using the interest method. Accrual of interest income on finance receivables is suspended when a loan is contractually delinquent for 60 days or more or the collateral is repossessed, whichever is earlier. As of March 31, 2008, 2007, and 2006 the amount of gross finance receivables not accruing interest was approximately $2,740,000, $1,461,000 and $768,000, respectively.

The amount of future unearned income is computed as the product of the Contract rate, the Contract term, and the Contract amount.

Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Deferred revenues consist primarily of commissions received from the sale of ancillary products. These products include automobile warranties, roadside assistance programs, accident & health insurance, credit life insurance, and forced placed automobile insurance. These commissions are amortized over the life of the contract using the effective interest method.

The Company attributes its entire dealer discount to a reserve for credit losses. The Company s net fees charged for processing a loan are recognized as an adjustment to the yield and are amortized over the life of the loan using the interest method. After the analysis of purchase date accounting is complete, any uncollectable amounts are contemplated in estimating the allowance for loan losses.

Revenues resulting from the sale of hardware and software are recognized when persuasive evidence of an agreement exists, delivery of the products has occurred, no significant Company obligations with regard to implementation remain, the fee is fixed or determinable and collectibility is probable. If the fee due from the customer is not fixed or determinable, revenue is recognized as payments become due from the customer. If collectibility is not considered probable, revenue is recognized when the fee is collected. Arrangements that included software services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangement. When software services are considered essential, revenue under the arrangement is recognized using contract accounting. When software services are not considered essential, the revenue related to the software services is recognized as the services are performed. The unamortized amounts are included in the caption of deferred revenues on the consolidated balance sheets. Sales taxes are excluded from both sales and expenses.

Earnings Per Share

Basic earnings per share is calculated by dividing the reported net income for the period by the weighted average number of shares of common stock outstanding. Diluted earnings per share includes the effect of dilutive options and other share awards. Basic and diluted earnings per share have been computed as follows:

	Year ended March 31,		
	2008	**2007**	**2006**
Numerator for earnings per share net income	**$ 9,672,176**	$ 11,579,759	$ 10,559,489
Denominator:			
Denominator for basic earnings per share weighted average shares	**10,002,505**	9,929,944	9,873,237
Effect of dilutive securities:			
Stock options and other share awards	**296,174**	359,229	601,054
Denominator for diluted earnings per share	**10,298,679**	10,289,173	10,474,291
Earnings per share basic	**$ 0.97**	$ 1.17	$ 1.07
Earnings per share diluted	**$ 0.94**	$ 1.13	$ 1.01

Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Earnings Per Share (continued)

Diluted earnings per share does not include the effect of certain stock options as their impact would be anti-dilutive. Approximately 122,000 were not included in the computation of diluted earnings per share for the year ended March 31, 2008 because their effect would have been anti-dilutive.

Share-Based Payments

Effective April 1, 2006, the Company adopted (FASB) Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), Share-Based Payment (SFAS No. 123(R)). SFAS No. 123(R) replaces SFAS No. 123, supersedes Accounting Principles Board (APB) No. 25 and related interpretations. SFAS No. 123(R) also amends SFAS No. 95 Statement of Cash Flows, to require that excess tax benefits be reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows . SFAS No. 123(R) requires recognition of the cost of employee services received in exchange for an award of equity instruments in the consolidated financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). SFAS No. 123(R) also requires measurement of the cost of employee services received in exchange for an award based on the grant-date fair value of the award. The Company adopted SFAS No. 123(R) using the modified prospective application. Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Prior to the adoption of SFAS No. 123(R), the Company used the intrinsic value method as prescribed by APB No. 25 and thus recognized no compensation expense for options granted with exercise prices equal to the fair market value of the Company s common stock on the date of grant.

The Company estimates the fair market value of each option award using the Black-Scholes option pricing model. The risk-free interest rate is based upon a U.S. Treasury instrument with a life that is similar to the expected term of the options. Expected volatility is based upon the historical volatility for the previous period equal to the expected term of the options. The expected term is based upon the average life of previously issued options. The expected dividend yield is based upon the current yield on date of grant.

In accordance with FASB Staff Position No. 123(R)-3 Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards , the Company elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123(R).

Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Financial Instruments

The Company s financial instruments consist of cash, finance receivables, accounts receivable, line of credit and accounts payable. For each of these financial instruments, the carrying value approximates its fair value.

The Company s financial instruments that are exposed to concentrations of credit risk are primarily finance receivables and cash. The Company operates in twelve states through its forty-seven branch locations. Florida represents 46% of the finance receivables total as of March 31, 2008. Ohio represents 11% and Georgia and North Carolina each represent 10% of the finance receivables total as of March 31, 2008. Of the remaining eight states, no one state represents more than 5% of the total finance receivables. The Company provides credit during the normal course of business and performs ongoing credit evaluations of its customers. The Company maintains reserves for potential credit losses which, when realized, have been within the range of management s expectations. The Company perfects a primary security interest in all vehicles financed as a form of collateral. From time to time the Company maintains deposits with banks, which exceed the $100,000 Federal Deposit Insurance Corporation insured limit. Historically, the Company has not experienced any loss of cash due to such concentration of credit risk.

Derivatives

Interest rate swap contracts designated and qualifying as cash flow hedges are reported as either assets or liabilities in the consolidated balance sheet at fair value. The gain or loss on the effective portion of the hedge initially is included as a component of other comprehensive income and is subsequently reclassified into earnings when interest on the related debt is paid. The Company does not use derivative instruments for speculative purposes.

In January 2008, the FASB issued Statement 133 Implementation Issue No. E23, Issues Involving the Application of the Shortcut Method under Paragraph 68 (Issue E23). Issue E23 amends SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities , to explicitly permit use of the shortcut method for those hedging relationships in which (1) the interest rate swap has a nonzero fair value at the inception of the hedging relationship, attributable solely to differing prices within the bid-ask spread, and/or (2) the hedged item has a trade date that differs from its settlement date because of generally established conventions in the marketplace in which the transaction to acquire or issue the hedged item is executed. Issue E23 is effective for hedging relationships designated on or after January 1, 2008.

At adoption, preexisting hedging relationships utilizing the shortcut method which did not meet the requirements of Issue E23 as of the inception of the hedging relationship must be undesignated prospectively. The effect of applying hedge accounting prior to the effective date may not be reversed. A hedging relationship that does not qualify for the shortcut method based on Issue E23 could be redesignated without the application of the shortcut method if that hedging relationship meets the applicable requirements of SFAS No. 133. The adoption of Issue E23 did not have a material impact on our results of operations or financial condition.

Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) is composed entirely of the fair value of cash flow hedges, net of the related tax effect.

Statement of Cash Flows

Cash paid for income taxes for the years ended March 31, 2008, 2007 and 2006 was approximately $6,286,000, $6,939,000 and $6,901,000, respectively. Cash paid for interest for the years ended March 31, 2008, 2007 and 2006 was approximately $6,337,000, $5,409,000 and $4,242,000, respectively.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . This statement provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. While SFAS No. 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating SFAS No. 157 and the potential impact, if any, that adoption will have on the consolidated financial statements.

In September 2006, the FASB Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-04). Also, in March 2007, the EITF reached a consensus on Issue No. 06-10, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements (EITF 06-10). Both Issues provide guidance on the recognition of company-paid life insurance protecting against the loss of key employees. EITF 06-10 provides guidance to help companies determine whether a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement should be recorded in accordance with either SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions (if, in substance, a postretirement benefit plan exists), or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract). EITF 06-10 also provides guidance on how a company should recognize and measure the asset in a collateral assignment split-dollar life insurance contract. EITF 06-04 and EITF 06-10 are effective for fiscal years beginning after December 15, 2007, with earlier adoption permitted and any resulting adjustment will be recorded as a change in accounting principle through a cumulative effect adjustment to equity. The Company is currently evaluating EITF 06-4 and EITF 06-10 and the potential impact, if any, that adoption will have on the consolidated financial statements.

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Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of SFAS No. 115 . SFAS No. 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses on that item shall be reported in current earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes the company elects for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted. The Company is currently evaluating SFAS No. 159 and the potential impact, if adopted, on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities SFAS No. 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the effect of the adoption of this statement.

Other recent accounting pronouncements issued by the FASB (including its EITF), the AICPA, and the SEC did not and are not believed by the Company to have a material impact on the Company s present or future consolidated financial statements.

3. Finance Receivables

The Company purchases individual installment loan contracts from new and used automobile dealers in its markets. There is no relationship between the Company and the dealer with respect to a given contract once the assignment of that contract is complete. The dealer has no vested interest in the performance of any installment contract the Company purchases.

The Company charges-off receivables when an individual account has become more than 120 days contractually delinquent. In the event of repossession the charge-off will occur in the month in which the vehicle was repossessed.

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Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Finance Receivables (continued)

Consumer automobile finance installment contracts are included in finance receivables and are detailed as follows as of March 31:

	2008	2007	2006
Indirect finance receivables, gross contract	**$ 270,053,583**	$ 247,002,051	$ 214,509,842
Unearned interest	**(78,623,809)**	(69,487,637)	(58,245,316)
Indirect finance receivables, net of unearned interest	**191,429,774**	177,514,414	156,264,526
Allowance for credit losses	**(20,112,260)**	(20,638,912)	(22,274,255)
Indirect finance receivables, net	**$ 171,317,514**	$ 156,875,502	$ 133,990,271

The initial terms of the indirect finance receivables range from 12 to 72 months and bear a weighted average effective interest rate of 24% as of March 31, 2008 and 2007.

Direct consumer loans are also included in finance receivables and are detailed as follows as of years ended March 31:

	2008	2007	2006
Direct finance receivables, gross contract	**$ 10,161,929**	$ 9,990,060	$ 8,208,542
Unearned interest	**(2,101,042)**	(2,176,159)	(1,707,308)
Direct finance receivables, net of unearned interest	**8,060,887**	7,813,901	6,501,234
Allowance for credit losses	**(335,057)**	(324,688)	(293,767)
Direct finance receivables, net	**$ 7,725,830**	$ 7,489,213	$ 6,207,467

The initial terms of the direct finance receivables range from 6 to 48 months and bear a weighted average effective interest rate of 26% and 24% as of March 31, 2008 and 2007, respectively.

The following table sets forth a reconciliation of the changes in the allowance for credit losses on Contracts for the years ended March 31:

	2008	2007	2006
Balance at beginning of year	**$ 20,638,912**	$ 22,274,255	$ 25,046,937
Discounts acquired on new volume	**9,715,284**	10,024,971	9,486,606
Losses absorbed	**(17,417,160)**	(12,560,921)	(9,029,935)
Current year provision	**7,355,973**	3,347,810	3,651,148
Recoveries	**1,848,816**	1,722,580	1,425,967
Discounts accreted	**(2,029,565)**	(4,169,783)	(8,306,468)

Balance at end of year	**$ 20,112,260**	$ 20,638,912	$ 22,274,255

Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Finance Receivables (continued)

The following table sets forth a reconciliation of the changes in the allowance for credit losses on direct loans for the years ended March 31:

	2008	2007	2006
Balance at beginning of year	**$ 324,688**	$ 293,767	$ 199,653
Current year provision	**374,832**	279,255	216,837
Losses absorbed	**(409,251)**	(276,065)	(158,590)
Recoveries	**44,788**	27,731	35,867
Balance at end of year	**$ 335,057**	$ 324,688	$ 293,767

4. Property and Equipment

Property and equipment as of March 31, 2008 and 2007 is summarized as follows:

	Cost	Accumulated Depreciation	Net Book Value
2008			
Automobiles	**$ 527,321**	**$ 331,189**	**$ 196,132**
Equipment	**541,721**	**371,745**	**169,976**
Furniture and fixtures	**433,461**	**276,002**	**157,459**
Leasehold improvements	**826,408**	**505,889**	**320,519**
	$ 2,328,911	**$ 1,484,825**	**$ 844,086**
2007			
Automobiles	$ 551,862	$ 305,467	$ 246,395
Equipment	501,811	298,517	203,294
Furniture and fixtures	414,187	229,169	185,018
Leasehold improvements	782,063	402,072	379,991
	$ 2,249,923	$ 1,235,225	$ 1,014,698

5. Line of Credit

The Company has a $115 million line of credit facility (the Line) which expires on November 30, 2010. The Company may borrow the lesser of the $115 million or amounts based upon formulas principally related to a percentage of eligible finance receivables, as defined. Borrowings under the Line may be under various LIBOR pricing options or at the prime rate. Prime rate based borrowings are generally less than $5 million. Pledged as collateral for this credit facility are all of the assets of the Company. As of March 31, 2008 the outstanding amount of the credit facility was approximately $100 million and the amount available under the line of credit was approximately $15 million. The facility requires compliance with certain financial ratios and covenants and satisfaction of specified financial tests, including maintenance of asset quality and

performance tests. Dividends require consent in writing by the agent and majority lenders under the facility. As of March 31, 2008, the Company was in full compliance with all debt covenants.

Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Notes Payable Related Party

During 2005 and the majority of 2006, the Company had unsecured notes payable to the President and Chief Executive Officer. On March 9, 2006 the notes were called and the principal balance of the note of $600,000 and remaining interest due was paid in full. For fiscal year 2006, the notes had a variable interest rate equal to the average cost of borrowed funds for the Company plus twenty-five basis points (6.10% at March 9, 2006).

The Company incurred interest expense on the above notes of approximately $37,000 for the year ended March 31, 2006.

7. Derivatives and Hedging

The Company utilizes interest rate swap agreements to manage exposure to variability in expected cash flows attributable to interest rate risk. The swap agreements effectively convert a portion of the Company s floating rate debt to a fixed rate, more closely matching the interest rate characteristics of the Company s finance receivables. At March 31, 2008, $80,000,000 of the Company s borrowings have been designated as the hedged items to swap agreements, and the Company has one $10,000,000 forward swap, which are detailed as follows:

Date Entered	Effective Date	Notional Amount	Fixed Rate of Interest	Maturity Date
February 26, 2003	May 17, 2004	10,000,000	3.91%	May 19, 2008
March 11, 2004	October 5, 2004	10,000,000	3.64%	October 2, 2009
January 18, 2005	July 2, 2005	10,000,000	4.38%	July 2, 2010
September 9, 2005	September 13, 2005	10,000,000	4.46%	September 2, 2010
October 18, 2007	October 22, 2007	20,000,000	4.73%	November 2, 2009
November 29, 2007	December 3, 2007	10,000,000	4.04%	December 2, 2010
January 17, 2008	February 2, 2008	10,000,000	3.26%	February 2, 2011
February 6, 2008	May 19, 2008	10,000,000	2.83%	May 19, 2010

Each swap agreement has identical terms to the critical terms of the hedged item and meets each condition in SFAS No.133 for utilization of the shortcut method to assess the effectiveness of the swap agreement in hedging the variability of interest payments on the floating rate borrowings under the Line. The shortcut method presumes that there is no hedge ineffectiveness if all such applicable conditions are met and the critical terms of the hedge and the hedged item do not change. During the life of each hedge, the critical terms of the hedge and the hedged item did not change. Accordingly, the Company did not have any gain or loss from hedge ineffectiveness.

The Company records net gains and losses from the swap agreements in the caption of interest expense in the consolidated statements of income. Under the swap agreements, the Company received an average variable rate of 4.57%, 5.24% and 3.83% and paid an average fixed rate of 4.03%, 3.90% and 3.75% for the years ended March 31, 2008, 2007 and 2006, respectively. For the twelve months ended March 31, 2008, the Company reclassified approximately $403,000 from accumulated other comprehensive income to interest expense. The interest rate swaps are recorded at fair value, approximately ($2,610,000) and $660,000 as of March 31, 2008 and 2007, respectively, in the caption derivatives on the consolidated balance sheet. Accumulated other comprehensive income at March 31, 2008 and 2007 of approximately ($1,611,000) and $408,000, respectively, represents the after-tax effect of the derivative (loss) or gain.

Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Derivatives and Hedging (continued)

The following table reconciles net income with comprehensive income for the years ended March 31, 2008, 2007 and 2006.

	2008	2007	2006
Net income	**$ 9,672,176**	$ 11,579,759	$ 10,559,489
Mark to market-interest rate swaps, net of tax (benefit) expense of ($1,250,594), ($356,927) and $327,140, respectively	**(2,019,128)**	(584,438)	533,726
Comprehensive income	**$ 7,653,048**	$ 10,995,321	$ 11,093,215

During the next year the Company expects to reclassify from other comprehensive (loss) to interest expense approximately $1.0 million. This amount is based on current 30-day libor pricing levels, which are subject to volatility, and no assurance can be given that the actual amount reclassified from other comprehensive (loss) to interest expense may not be materially different.

8. Income Taxes

The provision for income taxes consists of the following for the years ended March 31:

	2008	2007	2006
Current:			
Federal	**$ 4,976,294**	$ 6,121,286	$ 5,898,010
State	**872,835**	970,239	917,254
Total current	**5,849,129**	7,091,525	6,815,264
Deferred:			
Federal	**37,879**	57,203	(289,444)
State	**6,644**	9,088	(45,014)
Total deferred	**44,523**	66,291	(334,458)
Income tax expense	**$ 5,893,652**	$ 7,157,816	$ 6,480,806

The net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes are reflected in deferred income taxes. Significant components of the Company s deferred tax assets consist of the following as of March 31:

	2008	2007
Allowance for credit losses not currently deductible for tax purposes	**$ 3,815,689**	$ 3,938,060

Derivatives	**999,107**	(251,487)
Other items	**360,821**	310,705
	$ 5,175,617	$ 3,997,278

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Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Income Taxes (continued)

The provision for income taxes reflects an effective U.S tax rate, which differs from the corporate tax rate for the following reasons:

	2008	2007	2006
Provision for income taxes at federal statutory rate	**$ 5,448,040**	$ 6,558,151	$ 5,930,468
Increase resulting from:			
State income taxes, net of federal benefit	**571,661**	636,562	568,703
Other	**(126,049)**	(36,897)	(18,365)
	$ 5,893,652	$ 7,157,816	$ 6,480,806

9. Share-Based Payments

The Company has share awards outstanding under three share-based compensation plans (the Equity Plans). The Company believes that such awards better align the interests of its employees with those of its shareholders. Under the shareholder-approved 1998 Employee Stock Option Plan and Non-Employee Director Stock Option Plan (collectively the 1998 Plans) the Board of Directors was authorized to grant option awards for up to 1,410,000 common shares to employees and directors. On August 9, 2006 the Company s shareholders approved the Nicholas Financial, Inc. Equity Incentive Plan (the 2006 Plan) for employees and non-employee directors. Under the 2006 Plan the Board of Directors is authorized to grant total share awards for up to 975,000 common shares. The 2006 Plan replaced the 1998 Plans; accordingly no additional option awards may be granted under the 1998 Plans. In addition to option awards, the 2006 Plan provides for restricted stock and performance share awards.

Option awards previously granted to employees and directors under the 1998 Plans generally vest ratably based on service over a five and three-year period, respectively and generally have a contractual term of ten years. Vesting and contractual terms for option awards under the 2006 Plan are essentially the same as those of the 1998 Plans. Restricted stock awards generally cliff vest over a three-year period based on service conditions. The vesting of performance share awards is contingent upon the attainment of company-wide performance goals including annual revenue growth and operating income targets. There are no post-vesting restrictions for share awards.

The Company funds share awards from authorized but unissued shares and does not purchase shares to fulfill the obligations of the plans. Dividends, if any, are not paid on unvested performance shares or unexercised options, but are paid on unvested restricted stock awards.

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Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Share-Based Payments (continued)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2008	2007	2006
Risk-free interest rate	**3.60%**		4.02%
Weighted average expected remaining term	**7 years**		6 years
Expected volatility	**47%**		34%
Expected dividend yield	**0.00%**		0.00%

A summary of option activity under the Equity Plans as of March 31, 2008, and changes during the year are presented below.

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2007	709,250	$ 2.65		
Granted	320,000	$ 8.12		
Exercised	(206,750)	$ 1.36		
Forfeited	(43,600)	$ 9.49		
Outstanding at March 31, 2008	778,900	$ 4.85	5.48	$ 1,647,008
Exercisable at March 31, 2008	443,850	$ 2.59	2.61	$ 1,636,355

The aggregate intrinsic value for options outstanding and exercisable does not include options whose exercise price was greater than the price of the Company s common stock at March 31, 2008.

The Company granted 320,000 options with a weighted average fair value of $4.33 during the year ended March 31, 2008. The Company did not grant any options during the year ended March 31, 2007. During the year ended March 31, 2006, the Company granted 48,000 options with a grant date fair value of $4.83. The total intrinsic value of options exercised during the years ended March 31, 2008, 2007 and 2006 was approximately $1,251,000, $273,000 and $743,000 respectively.

During the year ended March 31, 2008, 206,750 options were exercised at exercise prices ranging from $1.13 to $10.35 per share. During the same period 43,600 options were forfeited at exercise prices ranging from $6.07 to $11.23 per share.

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Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Share-Based Payments (continued)

Cash received from options exercised during the years ended March 31, 2007, 2006 and 2005 totaled approximately $280,000, $66,000 and $116,000 respectively. Related income tax benefits during the same periods totaled approximately $476,000, $104,000 and $282,000 respectively. Such amounts are included in proceeds from exercise of stock options and income tax benefit related thereto under cash flows from financing activities in the consolidated statements of cash flows. As of March 31, 2008, there was approximately $1,008,000 of total unrecognized compensation cost related to options granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately 3 years.

A summary of the status of the Company s non-vested restricted shares under the Equity Plans as of March 31, 2008, and changes during the year then ended is presented below.

Restricted Share Awards	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Non-vested at March 31, 2007	45,000	$ 12.59		
Granted	30,000	$ 6.57		
Vested		$		
Forfeited	(6,000)	$ 11.03		
Non-vested at March 31, 2008	69,000	$ 10.11	1.29	425,730

The Company awarded 30,000 restricted shares with a weighted average grant date fair value of $6.57 during the year ended March 31, 2008.

As of March 31, 2008, there was approximately $416,000 of total unrecognized compensation cost related to non-vested restricted share awards granted under the Equity Plan. That cost is expected to be recognized over a weighted-average period of approximately 1.29 years.

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Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Share-Based Payments (continued)

A summary of the status of the Company s non-vested performance shares under the Equity Plans as of March 31, 2008, and changes during the year then ended is presented below.

Performance Share Awards	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Non-vested at March 31, 2007		$		
Granted	29,250	$ 8.93		
Vested	(5,750)	$ 11.14		
Forfeited	(10,500)	$ 11.14		
Non-vested at March 31, 2008	13,000	$ 6.16	1.00	80,210

The Company awarded 29,250 performance shares with a weighted average grant date fair value of $8.93 during the year ended March 31, 2008.

As of March 31, 2008, there was approximately $80,000 of total unrecognized compensation cost related to non-vested performance share awards granted under the Equity Plan. That cost is expected to be recognized over a weighted-average period of approximately 1 year.

For purposes of disclosure pursuant to SFAS No. 123 and for recognition pursuant to SFAS No. 123(R) the estimated fair value of share awards is amortized over the awards requisite service period (the vesting period) using the straight line method. The adoption of SFAS No. 123(R) and its fair value compensation cost recognition provisions are different from the non-recognition provisions under SFAS No. 123 and the intrinsic value method for compensation cost allowed by APB No. 25.

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Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Share-Based Payments (continued)

The following table illustrates the effect on net income and earning per share if the Company had applied the fair value recognition provision of SFAS No. 123(R) to options granted under the plans for the year ended March 31, 2006. For purposes of this pro forma disclosure, the value of the options is estimated using the Black-Scholes option pricing model and amortized to expense over the award s vesting period.

	Year ended March 31, 2006
Reported net income	$ 10,559,489
Stock based employee compensation cost under the fair value method, net of tax	78,977
Pro forma net income	$ 10,480,512
Reported basic earnings per share	$ 1.07
Pro forma basic earnings per share	$ 1.06
Reported diluted earnings per share	$ 1.01
Pro forma diluted earnings per share	$ 1.00

10. Employee Benefit Plans

The Company has a 401(k) retirement plan under which all employees are eligible to participate. Employee contributions are voluntary and subject to Internal Revenue Service limitations. The Company matches, based on annually determined factors, employee contributions provided the employee completes certain levels of service annually. For the years ended March 31, 2008, 2007 and 2006, the Company recorded expenses of approximately $141,000, $105,000 and $187,000, respectively, related to this plan.

Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies

The Company leases corporate and branch offices under operating lease agreements which provide for annual minimum rental payments as follows:

Year ending March 31:	
2009	$ 1,131,501
2010	813,756
2011	250,635
2012	67,134
2013	21,600
	$ 2,284,626

Rent expense for the years ended March 31, 2008, 2007 and 2006 was approximately $1,330,000, $1,194,000 and $1,021,000, respectively. The Company recognizes rent expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements, periods where no rent payment is required and escalations in rent payments over the term of the lease.

The Company is not a party to any pending legal proceedings other than ordinary routine litigation incidental to its business, none of which, if decided adversely to the Company, in the opinion of management, would have a material adverse affect on the Company s financial position.

12. Quarterly Results of Operations (Unaudited)

	Year ended March 31, 2008			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Total revenue	**$ 12,170,554**	**$ 12,577,711**	**$ 12,614,482**	**$ 12,720,050**
Interest expense	**1,588,608**	**1,643,262**	**1,610,758**	**1,467,837**
Provision for credit losses	**1,197,122**	**1,616,757**	**2,466,564**	**2,537,554**
Non-interest expense	**4,885,803**	**5,116,294**	**4,982,443**	**5,403,967**
Operating income before income taxes	**4,499,021**	**4,201,398**	**3,554,717**	**3,310,692**
Income tax expense	**1,715,131**	**1,604,782**	**1,318,293**	**1,255,446**
Net income	**$ 2,783,890**	**$ 2,596,616**	**$ 2,236,424**	**$ 2,055,246**
Earnings per share:				
Basic	**$ 0.28**	**$ 0.26**	**$ 0.22**	**$ 0.20**
Diluted	**$ 0.27**	**$ 0.25**	**$ 0.22**	**$ 0.20**

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Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Quarterly Results of Operations (Unaudited) (continued)

	Year ended March 31, 2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$ 11,328,874	$ 11,606,734	$ 11,730,229	$ 12,043,537
Interest expense	1,260,203	1,362,691	1,451,647	1,461,058
Provision for credit losses	810,002	852,451	1,193,778	834,174
Non-interest expense	4,356,483	4,910,131	4,605,273	4,873,908
Operating income before income taxes	4,902,186	4,481,461	4,479,531	4,874,397
Income tax expense	1,872,743	1,713,037	1,709,737	1,862,299
Net income	$ 3,029,443	$ 2,768,424	$ 2,769,794	$ 3,012,098
Earnings per share:				
Basic	$ 0.31	$ 0.28	$ 0.28	$ 0.30
Diluted	$ 0.29	$ 0.27	$ 0.27	$ 0.29

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Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure information required to be disclosed in its reports filed pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure. The Company s management, including its Chief Executive Officer and Chief Financial Officer, does not expect that the Company s disclosure controls and procedures or internal controls will prevent all possible error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance the objectives of the control system are met. Further, the design of a control system must reflect the fact there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

The Company s management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2008. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2008, the Company s disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Chief Executive Officer and Chief Financial Officer by others within those entities, particularly during the period in which this Report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

Remediation of Material Weaknesses

As noted in Item 9A under the caption Management s Report on Internal Control over Financial Reporting in our Annual Report on Form 10-K for the year ended March 31, 2007, management concluded that internal controls over financial reporting were ineffective and that material weaknesses existed in the design and operating effectiveness of our internal control structure. During the fiscal year ended March 31, 2008, the Company implemented corrective procedures designed to remediate the material weaknesses in controls and procedures over accounting for income taxes and establishing and reviewing the loan loss analysis, including the following:

- For each quarter of Fiscal 2008, the audit committee was given additional information relating to the loan loss analysis to enable them to more thoroughly review and analyze the associated calculations.

- The CFO and the Controller both thoroughly reviewed and discussed the loan loss analysis to ensure the estimates and calculations were appropriate.

- The CFO and the Controller both thoroughly reviewed and discussed all income tax accounts to ensure correct computations and reconciliations.

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The Company s accounting staff was increased by one employee to help alleviate segregation of duties issues associated with having a limited staff. Management is continuing to monitor the staffing situation and additional accounting staff may be hired during Fiscal 2009. The Company fully completed remediation of the material weaknesses in controls and procedures over financial reporting and have concluded the Company s disclosure controls and procedures were in place and operating effectively as of March 31, 2008.

Management s Report on Internal Control over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements in accordance with generally accepted accounting principles. The Company s management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the design and operational effectiveness of our internal control over financial reporting as of March 31, 2008, the end of the fiscal year covered by this Report using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.* Based on this evaluation, management concluded that as of March 31, 2008, the Company maintained effective internal controls over financial reporting in accordance with the COSO criteria.

Change in Internal Control Over Financial Reporting

No changes in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the Company s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Nicholas Financial, Inc.

We have audited Nicholas Financial, Inc. and subsidiaries (the Company) s internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended March 31, 2008 and our report dated June 16, 2008, expressed an unqualified opinion on those consolidated financial statements.

/S/ Dixon Hughes PLLC
Atlanta, Georgia
June 16, 2008

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information set forth under the captions Proposal 1: Election of Directors, Board of Directors, Executive Officers and Compensation and Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement and Information Circular, dated on or about July 3, 2008, for the 2008 Annual General Meeting of Members of the Company to be held August 6, 2008 (the Proxy Statement), is incorporated herein by reference.

The Company has adopted a written code of ethics applicable to its principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. The text of this code of ethics is filed as Exhibit 14 to this Report. A copy of the code of ethics is also posted on the Company s web site at www.nicholasfinancial.com. The Company intends to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to, or waivers from, the code of ethics by posting such information on the Company s web site.

Item 11. Executive Compensation, Compensation Interlocks and Insider Participation

The information set forth under the Executive Officers and Compensation and Board of Directors Directors Compensation in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth under the captions Voting Shares and Ownership of Management and Principal Holders and Executive Officers and Compensation Equity Compensation Plan Information in the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, Director Independence and Board of Directors

The information set forth under the caption Certain Relationships and Related Transactions in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information set forth under the caption Proposal 3: Appointment of Independent Auditors in the Proxy Statement is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules
(a)(1) Financial Statements

See Part II, Item 8, for the index of consolidated financial statements. All financial schedules are omitted as the required information is not applicable or the information is presented in the consolidated financial statements or related notes.

(3) Exhibits

Exhibit No.	Description
3.1	Articles of Nicholas Financial, Inc. (1)
3.2	Notice of Articles of Nicholas Financial, Inc. (2)
4	Form of Common Stock Certificate (3)
10.1	Amended and Restated Loan and Security Agreement, dated August 1, 2000 (4)
10.2	Amendment No. 1 to Loan Agreement, dated March 16, 2001 (5)
10.3	Amendment No. 2 to Loan Agreement, dated July 31, 2001 (6)
10.4.1	Amendment No. 3 to Loan Agreement, dated June 27, 2002 (7)
10.4.2	Amendment No. 4 to Loan Agreement, dated June 30, 2004 (8)
10.4.3	Amendment No. 5 to Loan Agreement, dated March 31, 2005 (9)
10.4.4	Amendment No. 6 to Loan Agreement, dated September 15, 2005 (10)
10.4.5	Amendment No. 7 to Loan Agreement, dated February 1, 2006 (11)
10.4.6	Amendment No. 8 to Loan Agreement, dated March 27, 2007 (24)
10.4.7	Amendment No. 9 to Loan Agreement, dated November 13, 2007 (25)
10.5	Employee Stock Option Plan (12)
10.6	Non-Employee Director Stock Option Plan (13)
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10.11	Form of Letter Agreement (confirming terms and conditions of Swap Transaction under the Master Agreement referred to in Exhibit 10.10 above) and Schedule thereto listing variable terms of outstanding Swap Transactions (18)
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10.13	Form of Nicholas Financial, Inc. Equity Incentive Plan Stock Option Award (20)
10.14	Form of Nicholas Financial, Inc. Equity Incentive Plan Restricted Stock Award (21)
10.15	Form of Nicholas Financial, Inc. Equity Incentive Plan Performance Share Award (22)
14	Code of Ethics for Chief Executive Officer and Senior Financial Officers
21	Subsidiaries of Nicholas Financial, Inc. (23)
23.1	Consent of Dixon Hughes PLLC
24	Powers of Attorney (included on signature page hereto)
31.1	Certification of President and Chief Executive Officer
31.2	Certification of Senior Vice President and Chief Financial Officer
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. § 1350
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. § 1350

(1) Incorporated by reference to Appendix B to the Company s Proxy Statement and Information Circular for the 2006 Annual General Meeting of Shareholders filed with the SEC on June 30, 2004 (File No. 0-26680).
(2) Incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-8 filed with the SEC on May 24, 2007 (SEC File No. 0-26680).
(3) Incorporated by reference to Exhibit 4 to the Company s Annual Report on Form 10-KSB for the fiscal year ended March 31, 2004, as filed with the SEC on June 29, 2004.
(4) Incorporated by reference to Exhibit 10.1 to the Company s Registration Statement on Form S-2 (Reg. No. 333-113215) filed with the SEC on March 2, 2004.
(5) Incorporated by reference to Exhibit 10.2 to the Company s Registration Statement on Form S-2 (Reg. No. 333-113215) filed with the SEC on March 2, 2004.
(6) Incorporated by reference to Exhibit 10.3 to the Company s Registration Statement on Form S-2 (Reg. No. 333-113215) filed with the SEC on March 2, 2004.
(7) Incorporated by reference to Exhibit 10.4 to the Company s Registration Statement on Form S-2 (Reg. No. 333-113215) filed with the SEC on March 2, 2004.
(8) Incorporated by reference to Exhibit 10.1 to the Company s Form 10-QSB for the fiscal quarter ended June 30, 2004, as filed with the SEC on August 16, 2004.
(9) Incorporated by reference to Exhibit 10.4.3 to the Company s Form 10-KSB for the fiscal year ended March 31, 2005, as filed with the SEC on June 29, 2005.
(10) Incorporated by reference to Exhibit 10.4.4 to the Company s Form 10-Q for the quarter ended September 30, 2005, as filed with the SEC on November 11, 2005.
(11) Incorporated by reference to Exhibit 10.4.5 to the Company s Form 10-K for the fiscal year ended March 31, 2006, as filed with the SEC on June 29, 2006.
(12) Incorporated by reference to Exhibit 4 to the Company s Registration Statement on Form S-8 filed with the SEC on June 30, 1999 (SEC File. No. 333-81967).
(13) Incorporated by reference to Exhibit 4 to the Company s Registration Statement on Form S-8 filed with the SEC on June 30, 1999 (SEC File. No. 333-81961).

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(14) Incorporated by reference to Exhibit 10.7 to the Company s Registration Statement on Form S-2 (Reg. No. 333-113215) filed with the SEC on March 2, 2004.
(15) Incorporated by reference to Exhibit 10.8 to the Company s Registration Statement on Form S-2 (Reg. No. 333-113215) filed with the SEC on March 2, 2004.
(16) Incorporated by reference to Exhibit 21 to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2006, as filed with the SEC on June 29, 2006.
(17) Incorporated by reference to Exhibit 10.10 to Amendment No. 2 to the Company s Registration Statement on Form S-2 (Reg. No. 333-113215) filed with the SEC on April 7, 2004.
(18) Incorporated by reference to Exhibit 10.11 to Amendment No. 2 to the Company s Registration Statement on Form S-2 (Reg. No. 333-113215) filed with the SEC on April 7, 2004.
(19) Incorporated by reference to Appendix A to the Company s Proxy Statement and Information Circular for the 2006 Annual General Meeting of Shareholders filed with the SEC on June 30, 2006.
(20) Incorporated by reference to Exhibit 4.4 to the Company s Registration Statement on Form S-8 filed with the SEC on May 24, 2007 (SEC File No. 0-26680).
(21) Incorporated by reference to Exhibit 4.5 to the Company s Registration Statement on Form S-8 filed with the SEC on May 24, 2007 (SEC File No. 0-26680).
(22) Incorporated by reference to Exhibit 4.6 to the Company s Registration Statement on Form S-8 filed with the SEC on May 24, 2007 (SEC File No. 0-26680).
(23) Incorporated by reference to Exhibit 21 to the Company s Annual Report on Form 10-KSB for the fiscal year ended March 31, 2004, as filed with the SEC on June 29, 2004.
(24) Incorporated by reference to Exhibit 10.4.6 to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2007, as filed with the SEC on June 14, 2007.
(25) Incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q for the quarter ended December 31, 2007, as filed with the SEC on February 11, 2008.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

NICHOLAS FINANCIAL, INC.

Dated: June 16, 2008

By: /s/ Peter L. Vosotas
Peter L. Vosotas
Chairman, Chief Executive Officer and President

KNOW ALL MEN BY THESE PRESENTS that each person whose signature appears below constitutes and appoints Peter L. Vosotas and Ralph T. Finkenbrink, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and any other documents in connection therewith, with the U.S. Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents or either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Peter L. Vosotas Peter L. Vosotas	Chairman of the Board, Chief Executive Officer, President and Director	June 16, 2008
/s/ Ralph T. Finkenbrink Ralph T. Finkenbrink	Sr. Vice President Finance, Chief Financial Officer, Chief Accounting Officer and Director	June 16, 2008
/s/ Stephen Bragin Stephen Bragin	Director	June 16, 2008
/s/ Alton R. Neal Alton R. Neal	Director	June 16, 2008
/s/ Scott Fink Scott Fink	Director	June 16, 2008

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Nicholas Financial, Inc.*
3.2	Notice of Articles of Nicholas Financial, Inc.*
4	Form of Common Stock Certificate*
10.1	Amended and Restated Loan and Security Agreement, dated August 1, 2000*
10.2	Amendment No. 1 to Loan Agreement, dated March 16, 2001*
10.3	Amendment No. 2 to Loan Agreement, dated July 31, 2001*
10.4.1	Amendment No. 3 to Loan Agreement, dated June 27, 2002*
10.4.2	Amendment No. 4 to Loan Agreement, dated June 30, 2004*
10.4.3	Amendment No. 5 to Loan Agreement, dated March 31, 2005*
10.4.4	Amendment No. 6 to Loan Agreement, dated September 15, 2005*
10.4.5	Amendment No. 7 to Loan Agreement, dated February 1, 2006*
10.4.6	Amendment No. 8 to Loan Agreement, dated March 27, 2007*
10.4.7	Amendment No. 9 to Loan Agreement, dated November 13, 2007*
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* Incorporated by reference.